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Integration of social and economic policy

Report of the Secretary-General

Summary

The present report on "Integration of social and economic policy", the priority theme of the fortieth session of the Commission for Social Development, has been prepared in response to the request of the Commission made at its thirty-ninth session and to decision 2001/235 of the Economic and Social Council. The report draws heavily on the final outcome documents of three expert group meetings on the following subjects: social aspects of macroeconomic policies; expenditures in the social sector as a productive factor; and social assessment as a policy tool.

Chapter II of the report reviews the framework for the integration of economic and social policy as well as ways of conceptualizing the distinction between economic and social dimensions. It highlights the core functions of public policy, institutional and political factors and necessary measures to bridge the gap between economic and social policy.

Chapter III provides an overview of the key challenges of social and economic policy. They include persistent and increasing levels of inequality; the fiscal squeeze; increased financial risk; vulnerability resulting from the volatility of capital flows; the influence of transnational corporations in the design and implementation of national policies; and finally, the impacts of armed conflict and HIV/AIDS.

Chapter IV highlights the major conclusions of the three expert group meetings.

Chapter V presents recommendations for action at both national and international levels.

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I. Introduction

1. At its thirty-ninth session in February 2001 the Commission for Social Development adopted its multi-year work programme for the period 2002-2006. The priority theme for its fortieth session is "integration of social and economic policy", with three respective sub-themes: (a) "social aspects of macroeconomic policies"; (b) "social assessment as a policy tool"; and (c) "expenditures in the social sector as a productive factor". In its decision 2001/235 of 24 July 2001, the Economic and Social Council adopted the agenda of the Commission's fortieth session, including the above-mentioned priority theme. Discussions on the topic will continue the process of intergovernmental consideration of strategies for the design and implementation of social polices and programmes that were adopted by the General Assembly at its twenty-fourth special session as a follow-up to the World Summit for Social Development.

2. To facilitate understanding of such a complex theme as "integration of social and economic policy", as well as to provide recommendations regarding policy content and priorities, the United Nations Secretariat organized three expert group meetings on the various dimensions of the theme. The first expert group meeting, entitled "Expenditures in the social sector as a productive factor", was organized in cooperation with the Government of Costa Rica; the second, on "Social assessment as a policy tool", was held in cooperation with the Government of Bulgaria, and the third, on "Social aspects of macroeconomic policies", was held at United Nations Headquarters in New York. The overall purpose of the expert group meetings was to present and discuss the current experience accumulated in the respective fields. The experts, invited in their personal capacity, were asked to analyse pertinent issues and put forward practical recommendations for policy makers at the national and international levels. The reports of these expert group meetings as well as the names of the participants are contained in annexes I, II and III.

3. The present report draws on the deliberations and conclusions of the expert group meetings. At the same time, in providing a social perspective on macroeconomic policy formulation and implementation, the report situates the analysis of social policy in a broader framework while enhancing the coherence of this analysis. Many of the issues covered are politically contentious, involving an interplay of both domestic and international aspects of policy formulation as well as the value judgements of the participants of the expert group meetings. Nevertheless, an attempt is made in the present report and its annexes to give a balanced and impartial view of policy issues, while reflecting to the extent possible the richness of discussions and recommendations made on the integration of economic and social policies.

4. The organization of the report is as follows: Chapter II briefly introduces the framework for policy integration as well as some conceptual issues, including the overall distinction between economic and social policies; Chapter III highlights key social trends and issues of global governance; and Chapter IV provides a brief summary of major substantive issues from the expert group meetings and outlines some challenges in the areas of public policy, priority setting and budgeting. The final part, in Chapter V, presents recommendations for action at the national and international levels. Although the report provides a broad overview of many substantive issues and attempts to present those issues clearly, competently and in the relevant policy context, it does not offer ready-made solutions to the challenge

of integrating economic and social policy. Rather its purpose is more limited: to serve as a basic document for the Commission for Social Development in its deliberations on the subject, and to enable the Commission to come up with meaningful recommendations of its own.

II. The framework for the integration of economic and social policy

5. There are many ways of conceptualizing the distinction between economic and social policy, none of them perfect. Traditionally economic policy has been seen as being about the pursuit of economic growth (as measured by gross domestic product per capita), while social policy has been seen as being about the distribution of the benefits of such growth. While such a definition is convenient and often used, it is not always helpful, for social policy has a role in underpinning the environment within which economic forces interact, in addition to promoting social justice. In contrast, economic policy can have as its ultimate goal only the enhancement of the security, well-being and freedoms of individuals. It has been argued that this is not a new or radical insight, but something fundamental to the origins of the discipline.[1] In this sense, there is no serious doubt that the ultimate ends of economic policy are in the broadest sense "social".

6. Consequently, with the recognition of these policies, one might expect no substantial problem in reconciling the two. In practice, however, at both the national and international levels a gap exists, especially in relation to the understanding of macroeconomic policy. This gap has both human dimensions (different policy communities with different expectations and assumptions) and technical dimensions (different analytical tools). This gap and its problematic character became most visible during the 1980s, when for a variety of historical reasons neoliberal economics became dominant globally for the first time since the Second World War. This coincided with the reversal of the broadly positive trends of the previous 20 years in many parts of the developing world. Growing inequality, the erosion of social gains in health and education, and in some cases increasing levels of poverty and deprivation became increasingly evident. Whether these unwelcome trends were the direct consequence of stabilization and structural adjustment or institutional and governmental failure, or stemmed from country- or region-specific structural causes remains a matter of heated controversy.

7. At the heart of the gap is often the question of priorities. The "community" of macroeconomic decision makers, represented on the domestic side by the ministry of finance and the monetary authority and externally by the international financial community and transnational corporations, sees "sound policies" as comprising a package of measures driven by the following priorities: rapid correction of fiscal imbalances; low inflation and external deficits; financial sector liberalization; removal of controls on the movement of capital; and maximum possible degree of openness to external trade and foreign investment. These measures have also often been associated with the so-called "Washington consensus" and with its respective market-oriented sector policies, such as cost recovery for public service provision, and the deregulation of labour markets, usually accompanied by the erosion of labour rights. Its proponents believe it to be the best path to poverty reduction (and hence, implicitly, an essential foundation to overtly "social" policies that can occur

at other levels, such as the composition of sector spending). However, the measures themselves are aimed at promoting aggregate growth — they do not explicitly address issues of distribution or any other social goal, assuming social development will naturally follow economic growth.

8. Criticism of various aspects of the package of measures is growing, given the long-lasting and undesirable results of its application, and focuses in part on its underlying assumptions. Critics argue that the models underlying the Washington consensus ignore the operation of power within markets. It has been argued, for instance, that workers are in the weaker position with regard to information and bargaining power, and that this position of disadvantage, stemming from such policies as "labour market flexibility" and "capital market liberalization", is substantially worsened by policies that enhance the position of capital at the expense of workers. "So ingrained have these prescriptions become in the mantra of good policy that the distributional consequences have been almost totally ignored; and of course, if efficiency and distribution could be separated, as traditional theory argued it could be, the lapse might not have been so important."[2]

9. One must ask if these policies have achieved the improvement in efficiency and growth that is claimed for them. In at least some countries they have contributed to increased market failure, to inefficiency and to slower growth as shown by the empirical evidence of growth rates during the last two decades. There is broad agreement that distributional issues cannot be ignored in the formulation of macroeconomic policy.

10. Macroeconomics involves values, because it involves trade-offs and choices, and as such its prescriptions should be under democratic governance. The dimensions of politics and accountability need to be in place in order to integrate social and economic policy effectively. However, the social critique of the neoliberal model also points to policy priorities: the difference is in a world view that mistakes means (such as low inflation) for ends (such as the promotion of equitable access to high-quality employment) and, therefore, often gets its priorities wrong. This critique recognizes that the fair operation of markets for the promotion of social justice has many preconditions. These include empowering people who suffer from social discrimination (in particular women) so that markets will work for them, and taking seriously the equitable distribution of productive assets in a liberalized market. The macrosocial perspective also sees the existence of effective social protection systems for the vulnerable during economic transition as being a necessary prerequisite for reform. This view is frequently in contrast to actual practice, which has been to implement social remedies only after the reform measures have caused serious social and political problems.

11. In recent years some encouraging signs that the gap may be closing between the macroeconomic and macrosocial views have been observed in a few countries. For example, a global consensus has been gathering on the need to tackle the debt burden of the poorest countries. Even if the results of these initiatives have so far been modest, there has been increasing acceptance of the idea that human and social development are critical determinants of economic growth, with a recognition that access to key basic services should be seen as a universal right. In addition, there is a growing body of economic research affirming the positive impact of investment in education and health, poverty reduction and income equity on economic growth. A new pragmatism has become apparent on both sides of the debate in terms of the

appropriate roles of public provision and markets.[3] On the one hand, there is increasing recognition that determined public action is needed to offer universal access to quality social provision. On the other hand, many civil society representatives, in particular poverty activists, do not harbour any intrinsic hostility to market-based solutions, as long as poor people are empowered to take advantage of these solutions effectively. At the macrolevel, in the wake of the East Asian crisis of the late 1990s (and other crises which preceded it or followed owing to its contagious effect), it is now very widely recognized that capital account liberalization will massively increase the vulnerability of economies to shocks if it is not accompanied by a robust regulatory capacity in the State sector.

12. Measures to bridge the gap between economic and social policy should rest on public policy that can accomplish (but is not limited to) the following core functions:

(a) Creating an environment for efficient and effective private-public interaction and productive work by establishing appropriate and well-functioning institutions that, in turn, facilitate economic regulation and expand the possibilities for using economic resources for consumption, production or exchange;

(b) Achieving a desirable level of social investment, particularly of public social spending in such areas as education, health, housing and nutrition, that enhances the quality of human capital, making it decisively a productive factor;

(c) Achieving sufficient levels of social protection against either risks or deprivation deemed unacceptable in a society.

13. These core functions of public policy are inseparable and equally important. Often, programmes and policies fulfil one or more functions at the same time. While the functions of public policy can and should be articulated while taking into account economic and social dimensions, their effectiveness is largely determined by institutional and political factors. Establishing both systems capacity and human resources capacity leads to the improvement of public governance; their existence is a necessary condition for effectively carrying forward public policy as well as for reducing inefficiencies and/or cases of corruption in public service.

14. Since the fight against poverty, and particularly the eradication of extreme poverty, remains one of the crucial objectives at national and international levels, Governments should, through appropriate social investments and social protection schemes, play a leading role in building the human, physical, financial and social assets of poor people. In this context, Governments may adopt growth-promoting transfers and regulations to encourage the creation of economic opportunities, especially for the poor. At the same time, asset inequalities across age, class, ethnic, gender, racial or religious divides must be addressed in order to attain social justice. Getting information and know-how to both rural and urban poor areas can have major ramifications for improving skills and raising the productivity of the poor.

15. The traditional separation between the external front and the domestic front for macroeconomic policy-making has been drastically transformed with the growing economic integration in the world. This is particularly relevant for countries that actively pursue integration within such groups as the European Union, the North American Free Trade Agreement or MERCOSUR. Trade barrier removal, international migration, and increased capital mobility have major domestic policy implications. Foreign remittances by migrant workers are one example of the nexus

between the external and domestic fronts for policy-making, as in many countries remittances from abroad represent an important source of domestic aggregate demand.

16. It is necessary to create a better and more unified understanding of the policies that achieve the results that matter to people in all countries. A series of key international agreements can be used as a guide in specifying those results and the policy priorities that need to be adopted in order to achieve them.

17. Among the values and visions of basic freedoms and social justice that have driven the great social gains following the Second World War, the Universal Declaration of Human Rights (General Assembly resolution 217 A [III] of 10 December 1948) remains an inspiring guide. This was the first and most powerful declaration of a universal, integrated, holistic view of human well-being, covering political, civil, economic, social and cultural rights. The International Covenant on Economic, Social and Cultural Rights of 1966 (General Assembly resolution 2200 A [XXI], annex) directly links economic and social rights. In the context of integrating economic and social policies, the human rights approach has both relevance and appeal, as it places universally agreed values at the top of the development agenda. A rights-based development approach secures the universal realization of human rights in a context of globalization and inclusive democracy, ensuring public accountability and the participation of the poor. This approach therefore transcends constitutional declarations and implements practical policies. The realization of legal rights, the eradication of poverty and the attainment of global justice are central objectives of a globally integrated human rights approach.[4]

18. Many of the issues first addressed in the Universal Declaration of Human Rights and later by the International Covenant on Economic, Social and Cultural Rights were further developed by the international forums of the 1990s. The social agenda produced by the World Summit for Social Development in 1995 and summarized in the commitments of the Copenhagen Declaration on Social Development played a major role in challenging the neoliberal consensus of the 1980s. It also contributed significant policy content to the existing international agreements on economic and social rights. The key Copenhagen commitment of eradicating absolute poverty in the world through decisive national actions and international cooperation contributed directly to the decision of the twenty-fourth special session of the General Assembly in June 2000 to set a target of halving extreme poverty by 2015. The same objective was later adopted by the Millennium Assembly of the United Nations as one of the millennium development goals, including targets and indicators by which the international community can measure progress towards these goals and mobilize resources as well as assess the global effectiveness of international policies, institutions and strategies. These targets and indicators have been adopted as a guiding global framework for focusing efforts and measuring progress towards an equitable realization of rights, well-being and freedoms for all the world's people. It is an inspiring vision, and one that requires a holistic and integrated policy response at the local, national and international levels.

III. Key challenges

19. Social and economic policy faces major challenges on a global scale. These challenges include persistent and increasing levels of inequality that jeopardize

social cohesion and human development for all; a "fiscal squeeze" affecting public sectors in many developing countries and economies in transition caused by a combination of the loss of fiscal revenue and the need to meet the conditions of the liberalization model; increased financial risk, vulnerability and volatility of capital flows associated with excessive openness and economic integration; the strong influence of transnational corporations on domestic and national policies; and, finally, the breakdown of societies owing to armed conflict, the HIV/AIDS epidemic, famine and marginalization. The emergence of these challenges highlights the need to develop an appropriate national and global response as well as to revisit the scope and quality of multilateral efforts.

A. Inequality

20. Increasing income and wealth inequality[5] as well as persistent poverty in a large number of countries is a major obstacle to economic growth and development.[6] Exposure to hardship, and the lack of access to and/or loss of assets and opportunities can lead to social disruptions and unrest, leading eventually to polarized societies that move further away from inclusive development. One of the factors contributing to inequality is the increasing income gap between skilled and non-skilled (or less-skilled) workers owing to trade liberalization and technological changes. Another factor is the erosion of the redistributive role of the State. Changes in labour institutions, in particular, reduced regulation to protect workers, erosion of the minimum wage and of trade unions, higher labour mobility and increased informal work also contribute to wealth inequality. At the same time, a rise in the share of income derived from capital, such as interest, profits and rents, to the detriment of income derived from work has been observed.

21. There is strong evidence that the gap between rich and poor countries is widening. Globalization is either leaving behind some areas of the world or incorporating them into global processes on severely disadvantageous terms. This argument applies particularly to sub-Saharan Africa, which relatively speaking since the 1960s has failed to experience the progress in terms of economic growth compared to other areas of the developing world.[7] Finally, the debt dynamics is such that it is severely disadvantaging the poorest countries.

B. The fiscal squeeze

22. An increasingly liberalized international economic environment restricts many sources of fiscal revenue, such as trade tariffs and labour taxes. There is a broad-based move away from payroll taxes and towards indirect taxation in the expectation that it will promote private investment and encourage the creation of employment. Governments are increasingly restricted in their capacity to collect trade-related taxes. Transnational corporations can find ways of avoiding even the most meagre tax by transfer pricing or paying taxes only in countries that have the lowest rates. While liberalization measures may increase the income and volume base from which fiscal revenue can be derived, this effect is long term and strongly influenced by the positive responsiveness of economic growth to liberalization policies. In most poor countries, tariffs have been a major source of revenue. The direct impact of liberalization is the short-term reduction of total fiscal revenue. If the reactivation process promoted by the liberalization model is weak and/or unstable, economic

growth will not be strong enough to raise fiscal revenue in either the medium term or the long term.

23. Mobilization of financial resources for development during recent decades has been closely associated with significant innovations in private financial markets. The development of microfinance as a novel financial facility is an important example. Resource mobilization through the public sector has lagged behind, however, with the exception of the increasing use of value-added taxes. At the same time, adoption of such policies as liberalization and deregulation through, for example, reductions in tariffs and privatization, has reduced the capacity of the public sector to mobilize finance for development from traditional areas, yet taxes have not been imposed in new areas such as trade conducted through the Internet.[8] In many countries, especially in developing countries, where public sector outlays are relatively low, demands on public resources are increasing. The need to finance the provision of global public goods in an increasingly interconnected world also adds new urgency to the need for innovative new sources of financing for development.[9]

24. On the demand side, globalization seems to exert pressure for more, rather than less, social expenditure. Two dimensions are critical here: the need for a better educated and more highly skilled workforce to attain and maintain competitiveness, and the need to enhance or develop social protection systems in a more open, unstable and volatile environment. However, if the fiscal squeeze remains unresolved, can Governments do little to support the long-term competitiveness of their economies or attain social protection for their populations.

C. Openness, economic vulnerability and volatility of capital flows

25. Openness introduces new sources of economic vulnerability and risks. More open economies are more strongly affected by repercussion and contagion effects from the international environment. An international economic slowdown induces slower growth rates in the developing world. In contrast, higher growth rates pull these economies into steady growth mode ("the locomotive effect"). Policy makers' ability to implement counter-cyclical policies is severely limited in the liberalization model. In addition, the liberalization of financial markets has led to increased volatility of capital flows that are largely speculative and determined by interest differentials and perceptions of risk. The contagion effect of the Asian financial crisis led to rapidly developing social security and welfare crises in many countries. Increases in perceived risk resulting from economic openness tend to lead to increased pressure for government action in the social policy field.[10] The pressures on global institutional frameworks such as the World Trade Organization to respond to social and environmental concerns indicate similar concerns on an international scale. A recent study of nine countries that in various degrees adopted liberalization policies showed that in none of them was the impact of these policies both economically positive and socially favourable. In most, the social impact was unfavourable and the economic impact was diverse.[11]

D. Growing influence of transnational capital; decreased national capacities; and global governance

26. The growing expansion and influence of the largest private enterprises, especially transnational corporations and financial institutions, with only limited forms of coherent regulation, have been major factors driving growing popular unease at the pace and direction of contemporary globalization. The vast reach, immense financial resources and great economic power of these enterprises have been at the centre of many heated debates. For many commentators, the responses to civil society advocacy for an ethical approach to doing business on the global scale — which have largely so far taken the form of voluntary forms of self-regulation through the adoption of "codes of conduct" — do not go far enough. Transnationals are already a dominant part of the global economy — yet many of their actions go unrecorded and unaccounted for. It has been argued that they need to be brought within a frame of global governance, not just a patchwork of national laws, rules and regulations.[12]

27. While transnational corporations and supranational financial institutions have consolidated their control on production, trade and financial flows everywhere, many Governments lag behind in their ability to administer effective national policies, both economic and social. This process is most apparent in the developing world, where policy makers often have been unable to match the power of transnational capital. Concerns about the increasing mobility of various forms of capital form part of a wider debate about the governance of the global economy and how it should take account of social and environmental concerns. For example, the "race to the bottom" in social and labour conditions is not a necessary outcome of globalization, but whether voluntary corporate responsibility or global regulation is the best or most feasible answer to the challenges posed to social policy by increasing mobility of capital is the subject of a long-standing debate.[13] A balanced approach might involve developing practices for strengthening social and environmental impact assessment through both channels: enhanced voluntary initiatives by corporate actors and the exploration of new approaches to constructive global regulation.

E. The breakdown of societies: armed conflict, HIV/AIDS and threats to food security

28. Armed conflict produces inevitable suffering and deprivation. Some societies have become deeply immersed in conflict as a way of life. In "failed" States, the lack of any integration between economic and social policy represents an extreme outcome of the overall breakdown of social order. Societies ravaged by armed conflicts have paid a massive toll in the loss of human life and in economic, political and social disintegration. As the number of refugees and internally displaced people swells, new threats to political and economic stability emerge. Armed conflicts and subsequent economic collapse typically contribute to food shortages in the affected countries, aggravating even further precarious food supplies. Responding to these conflicts often requires the massive attention and involvement of the international community on both humanitarian and pragmatic grounds. More integrated approaches to conflict prevention and resolution are an important dimension that should not be overlooked if a stable path to progress is to be found.

29. The HIV/AIDS epidemic is yet another major challenge, particularly in some of the least developed countries in Africa, where it is having a devastating effect on public health, the economy and the educational system. Twenty-six of the 48 least developed countries are highly affected by HIV/AIDS crisis, which represents a grave threat to the well-being and development of their populations.

IV. Public policy: integrating economic and social dimensions[14]

A. Social impact of macroeconomic policies

30. In addition to overcoming key social global challenges, countries at all levels of development have to find an adequate balance in the emphasis placed on macroeconomic and social policies in order to meet both their short-term and their long-term development objectives. Important endogenous sources of economic growth include healthy and skilled human capital that assimilates and manages technological change, high investment rates and an institutional environment that promotes and sustains growth. The positive and direct relationship between the enhancement of human capital through education and long-term economic growth is well known. At the same time, the fulfilment of standard macroeconomic fiscal and monetary performance goals, such as steady growth, low inflation, and fiscal and external balance, is indicative of good economic policy-making and can contribute to high investment rates and confidence in the overall strength of the economy.

31. Nevertheless, social objectives should necessarily be included in macroeconomic policy-making. These include in brief full employment, poverty reduction and social protection, as well as the adequate provision of basic social services (e.g., education and health care). Macroeconomic objectives should also take into account the equity dimension, including the social objective of reducing income inequality. Disparate effects of macroeconomic policies on the status of women as well as on the environment need to be explicitly addressed. In the end, there is agreement that advancing social objectives will in turn promote long-term economic growth by improving human development and fostering social cohesion.

32. Institutional conditions, professional capabilities, the quality of governance and the legitimacy and transparency of public policy are all important factors in the way macroeconomic policy is implemented and integrated with social objectives. Most importantly, enhancing national proprietorship in the design of stabilization policies and economic growth models and overcoming the loss of national autonomy in economic policy-making are major obstacles that individual countries have to overcome. To improve the integration of economic and social policy, inclusive consultations that involve government ministries and other social and economic partners, such as trade unions, employers and other civil society organizations, need to be institutionalized and become regular practice. Open, transparent consultations are important for building consensus and bridging communication gaps.

33. In addition to growth, other areas where macroeconomic and social policies interact include fiscal policies, employment and real wages, and the development of human capital as well as the efficacy and inclusiveness of social protection systems. Pro-poor fiscal policies, in particular achieving efficiency and effectiveness in public spending, lead to substantial improvements in the prospects for the economic and social development of workers and families trapped in a culture of poverty and

survival. Steady growth in productive and decent employment reduces poverty and increases income. Disseminating new information technologies and building productive assets, especially for the poor at the household level, are actions that can have a significant positive impact on economic growth and development. Inclusive social protection systems can play an important role in mitigating the negative effects of economic shocks and macroeconomic policy changes.

B. Social expenditure as a productive factor

34. Historically, many countries overcame disadvantages associated with underdevelopment by investing in their human capital. There is broad agreement that investment in education,[15] including on-the-job training and other labour-related programmes, establishes the foundation for future growth. In addition to education, health care and nutrition improve the general health status of the population and the productive capacity of the labour force. Coverage of social risks by means of a comprehensive and fair social protection system completes the required range of expenditures that are needed to attain development. All these expenditures combined are indeed an essential form of productive investment. Moreover, such expenditures in the social sector support programmes that directly expand human capability; they are viewed as a productive factor from the human development perspective.

35. Overall levels of public social spending as a percentage of gross domestic product (GDP) have been declining in most parts of the developing world, while they have remained relatively stable in the developed world.[16] Decline or at least stagnation in the share of social expenditures in total GDP could be attributed to the excessive emphasis on fiscal discipline and "small Government" prevalent in the stabilization and structural adjustment programmes of the past two decades. While it is difficult to set universal, quantitative target levels of public spending on social services, given country-specific socio-economic and institutional circumstances, an internationally agreed minimum level of social expenditures can contribute to establishing a national benchmark for Governments to act upon. The establishment of minimum spending levels can play an important role in national "political contracts" in which the allocation of funds for social development within national budgets would shield spending levels in the budgetary process in such critical areas as primary education and basic health. Target levels of public social spending should be linked to the internationally agreed development goals and therefore help monitor the attainment of social goals. The cost of achieving them in the most cost-effective manner while providing universal coverage of basic needs and basic social services at the national level should be estimated, and Governments should ensure that the required resources are allocated to these ends. In the least developed countries increased budgetary allocations may not have an immediate and tangible impact on the achievement of development goals owing to declines in already meagre fiscal revenues. In such instances, international assistance, including official development assistance (ODA), can and should play a central role in reaching social objectives. Owing to a lack of resources in poor countries, external debt relief also plays an important role in the support of their social development. While recognizing that many Governments, particularly in developing countries and in some economies in transition, face tremendous resource constraints and conflicting demands on scarce resources, Governments nevertheless are expected to implement commitments made

at the World Summit for Social Development in 1995 as well as at the twenty-fourth special session of the General Assembly held at Geneva in the year 2000.

36. In the implementation of social development goals, the question arises of targeted versus universal social programmes. In principle, universal access to health and education is desirable, and obstacles to achieving this goal should be removed. While targeting may be effective in certain instances, especially when carried out within a broader framework of achieving universal access to social services, it must not create dependency. At the same time, the increasing application of user fees and cost recovery in many countries has had particularly negative effects on the poor. In general, basic social services such as minimum health provision and basic education, as well as services for people with disabilities, should not be subject to cost recovery. In instances where countries have implemented comprehensive cost-recovery measures, targeted social services should be provided for vulnerable groups.

37. As the paradigm for development has shifted towards greater reliance on market forces, the role of the private sector and NGOs in the social sector has increased. Many countries, developing and developed alike, have privatized social services in an attempt to increase efficiency. As the domain of the public sector has narrowed with efforts to achieve smaller Government, more and more social services have been left to the private sector or NGOs. These non-governmental actors are becoming more active in both resource mobilization and the direct provision of social services. In order to achieve overall human development objectives effectively, however, these actors have to be integrated into a more systematic framework and a long-term strategy that only Government institutions and agencies can achieve and give relative permanency to. The stewardship role of Government in social development should be strengthened rather than diminished in the era of more active participation by the private sector and civil society. Building effective partnerships, accepting mutual responsibility and creating a sense of commitment between Government, civil society and market institutions based on a shared vision of society-wide goals should be encouraged.

C. Social assessment as a policy tool

38. Social assessment is a complex and multifaceted technique. It relies heavily upon the use of participatory methods to identify priorities as well as refine and improve decision-making and management of social expenditures. It is an invaluable tool for Governments in the identification and implementation of policies. Social assessment helps analyse the impact and consequences of policies and suggests ways to improve their implementation; it reduces the risks of policy-making and anticipates the impact of policies; it provides a means of integrating the activities of different political actors; it helps facilitate the implementation of public policy by governmental institutions; it helps improve understanding of local realities; and it increases people's participation and builds social capital. One of the fundamental values of social assessment is to stimulate stakeholders to get involved and organized to meet their own needs, and as a consequence, to achieve the common goal of development.

39. In the fight against poverty, social assessment helps the poor articulate their conditions and their needs and encourages them to organize to meet those needs. In

addition, assessment is a required tool for the design of policies that either target the poor specifically — with effective demand-driven programmes and activities — or provide overall incentives for the generation of employment opportunities and income. A poverty map will help distinguish and identify people living in poverty according to their income, levels of vulnerability, gender, age, location and disability, among other factors. In the private sector, social assessment examines the social impact of business activities and encourages inclusion of social considerations in the decision-making of corporations and private investors.

40. Achieving consensus on what constitutes priority social concerns at the national level is also an important step in the achievement of larger integration between economic and social policies. One of the problems of social policy is that social concerns are often difficult, if not impossible, to quantify and a lack of quantification might make them seem less tangible. Social assessment can help to find ways to express social concerns in ways that make sense to policy makers. It is highly desirable for this function to be actively pursued under government leadership.

D. Setting priorities and allocating resources

41. Prioritizing and setting social goals for public action is fundamental, especially in view of the increasing demand for public funding. However, with few exceptions at the national level, such goal-setting is usually confined to a small team of technocratic professionals, and the discussion of the national public budget is undertaken behind closed doors.[17] Actors who are excluded from budget deliberations tend to lose out when scarce resources are disbursed. It is important for a process of national discussion and debate surrounding social policy issues and economic targets to be institutionalized and made public. In some countries, preliminary drafts of the main assumptions and considerations for the public sector budget are disseminated on the Internet in order to make the process more transparent and enhance the quality of public discourse.

42. It has been argued that social policy should aim at breaking the intergenerational transmission of inequality and poverty. To this effect, the core functions of public policy should create employment (economic regulation), enhance human capital (social investment) and expand coverage of social protection (see box below).[18] However, the distribution of public spending among competing ends and programmes is often affected by various factors, notably by political considerations and the relative strength of economic actors, their coalitions and the balance of political power. Tensions among interest groups and the relative importance of institutions such as the armed forces or workers' unions, political parties and government clients are manifested in public sector budgets. The unfortunate reality of many countries is that people with low incomes, who need employment, social investment and social protection the most urgently, are typically not appropriately represented when budget decisions are made. This is the reason why empowerment and active representation of the poor at the highest official level is necessary in order to institute pro-poor measures that have budgetary counterparts. Empowerment of the poor and excluded population can be increased by means of changes in the political and legal basis in order to allow a more democratic development paradigm. Decentralization of government functions and responsibilities should target community development, promoting gender equity,

tackling social barriers and supporting poor people's assets, in particular their social capital.

43. Nevertheless, empowerment is often difficult to achieve because it results from political processes that are conditioned by historical context and therefore require an enormous impetus to be changed. Achieving empowerment in highly exclusionary and/or authoritarian societies is a necessary but often long-term and painful process. Analytically and practically, however, empowerment can be considered one of the ingredients for reducing poverty in the context of a three-step strategy. The first step is to promote opportunities to create jobs, credit, roads, electricity and markets for the produce of the poor, as well as the schools, water, sanitation and health services that underpin the health and skills essential for work.[19] The second step is to facilitate empowerment by encouraging the active collaboration of stakeholders and the changes in governance that make public administration, legal institutions and public service delivery more efficient and accountable to all citizens, and by strengthening the participation of poor people in political processes and local decision-making. The third step is to enhance security or reduce vulnerability to economic shocks, natural disasters, ill health, disability and personal violence.[20] All three steps are equally important, complementary and consistent with the core functions of public policy presented in paragraph 12.

Priorities for social policy

Employment

- Promote adequate generation of quality employment; vigorous demand for labour is crucial for reducing poverty and improving income distribution;
- Promote the adaptability of labour to technical change and the business cycle by means of strong labour-training schemes, institutions that enhance cooperation, adequate social protection and a prudent minimum wage policy;
- Facilitate the employment of women;
- Introduce flexibility, accompanied by greater protection;
- Create stable and appropriately funded programmes to provide informal workers with technical and managerial training and with access to formal financial sources and social protection mechanisms;
- Create opportunities for the integration of formal and informal small-scale firms with large-scale firms or the alliance of smaller firms in clusters;
- Promote social dialogue by strengthening procedures and institutions for social dialogue, including strengthening representative employer and worker organizations.

Human capital

- Assign education the highest priority in public policy design and secure this by means of universal access and coverage of basic

education (pre-school, primary and secondary), in particular for girls, the continuity and permanence of students throughout the complete basic cycle, continuous improvement of quality standards, and the promotion of democratic values and social tolerance;

- In developing countries, increase the contribution of public resources to education, seeking to meet the standards of the Organisation for Economic Cooperation and Development;
- Match increasing resources with qualitative efforts to improve educational standards;
- Promote better standards in formal knowledge (language and mathematics), and generate permanent learning capabilities such as teamwork, learning to learn, foreign language and skills in informatics;
- Provide updated knowledge and skills to allow successful insertion of individuals in competitive labour markets;
- Establish reconversion programmes that are efficient and timely and include the training and reinsertion of workers;
- Promote nutrition, especially at the early stages of life, including during pregnancy, and provide access to preventive and curative health care;
- Invest in water supplies and sanitation;
- Improve quality of life in rural and urban areas.

Social protection

- Provide universal coverage and solidarity schemes for health, particularly for ageing and unemployment;
- Establish an appropriate mix between public- and private-sector solutions in the provision of public and merit goods and a sound and equitable system of regulation and subsidies;
- Develop affordable, appropriate and timely social safety net institutions to reassure populations that the negative consequences of economic reforms and downswings in activity will not fall disproportionally on them. Protective schemes should evolve into elements of a more permanent social security system;
- Encourage transfers to the poor that are linked to human capital accumulation (e.g., to school attendance or training) or, more broadly, to productive access;
- Establish emergency employment or labour-intensive public works programmes.

Source: Based on *Social Dimensions of Macroeconomic Policy*, report of the Executive Committee on Economic and Social Affairs of the United Nations (New York, ECESA/4, 22 June 2001).

44. The public sector budget can become a key instrument for advancing economic and social objectives. Unfortunately, public discourse as to how best to achieve equity between social objectives and economic development is often lacking. Coordination among social and economic/finance ministries is frequently a weak point so that individual sectoral efforts are not understood by the public, and policy-making can become inconsistent. The question of integration and coordination among cabinet members has not been sufficiently addressed among policy makers at the executive level in many countries. An integrated approach to policy-making should establish working structures that encourage ministers to consider the multifaceted dimensions of social and economic policy. The existence of interlocking social problems requires several agencies to work together and develop a joint response. In this context, ministries should be made accountable for multisectoral programming initiatives and for improving their individual efficiency. These new working strategies should be introduced sequentially and should be given time to attain optimal functioning status. In addition, government and private sector along with civil society representatives can establish consultation processes to help promote policy-making consensus and constructive relationships. Institutional structures might be reformed to encourage the clustering of cabinet positions to ensure greater contact and cross-fertilization among the ministries engaged in each cluster and, eventually, across clusters.

45. The experience of many countries demonstrates that one common characteristic of public sector budgeting is the long and often rather troublesome process that is involved in summarizing and obtaining input from innumerable agencies and offices. The lack of adequate and reliable information on actual spending, the total estimated cost of current and future projects, costs already incurred in ongoing projects, outstanding debt and, in general, the absence of control mechanisms prevent the submission of accurate budget estimates. Stronger budgeting technique and more sophisticated accounting methods are urgently needed. Very often, the process of budgeting and prioritizing uses a top-down historical-based model that bears little resemblance to the actual budget. The question of accountability for the decisions taken becomes very important in this context. Democracy and participation are central to holding Governments accountable to revenue and spending processes, and people's input is important for setting "right" priorities. It is important to identify the connecting points for civil society organizations to interface with government agencies in the budgeting process.

46. Given limited government revenues for social and economic policy, it is important to follow some general rules, priorities and sequencing. The establishment of a mechanism at the national level to ensure that resources are made available for pre-determined priorities has proved to be extremely useful. A rating system can be created to assign weights to objectives and disseminate the resulting priorities to all ministries. Using such a system, budget priorities can be established and assessed. It is important to promote consistency within Governments at all levels. Opening up the policy and budgetary processes is a concern, not only among ministries at the national level, but also at the provincial and local government levels and, to the extent possible, at the level of communities. This would involve a consultative process for developing strategies for economic and social development.

47. Trade-offs in public sector budgeting are a contentious matter and generalizations about the implementation process may not be appropriate. However,

an attempt may be made to create a hierarchy of priorities. An educated labour force raises productivity, thus increasing the competitive standing of the country when attracting foreign investment. In addition, educated judgements and informed decisions have major ramifications for other social decisions such as those involving health and nutrition. Thus, investment in education should be one of the top priorities. In particular, the education of women is regarded as an investment with high social and economic returns, in addition to achieving equity objectives. Social mobility has also increased in countries that have given priority to educational attainment. Evidence collected in numerous countries points to a direct relationship between the number of years of schooling a child attains and that child's ability to move out of poverty. Therefore, broad access to education for all children, while working to improve the quality of curricula and extending educational opportunities, if possible up to the tertiary level, is of utmost importance. Of particular relevance is the role of women as equal agents for change and development.

48. Basic health care and a minimal level of social protection are the next priority. International evidence shows that in this area the developed countries spend substantially more public funds than the developing world, both as a share of total income and in absolute value. Developed countries, owing to their ageing populations, high unemployment levels, changing family patterns and generally universal coverage, spend relatively more on health than on education. On health alone, public expenditures over gross domestic product are 6.1 per cent, while in the developing world, the same share is only 2.4 per cent. The variation between public expenditures on social security and welfare in the developed and the developing countries is even larger.

49. In setting priorities for a more integrated approach to development, long-term and short-term considerations should not be overlooked. Long-term considerations in decision-making may not necessarily be politically convenient at a given moment. However, they are often extremely beneficial to the society in the long run and are always important to keep in mind, even when pressing short-term needs impose substantial financial constraints. Reforms conceived with long-term implications in mind may well extend beyond the narrowly defined economic or technical dimensions to include other crucial objectives of a social, political or organizational nature.

50. Apart from the policy content, in implementing policy change aimed at better integrated economic and social elements it is essential to identify clearly not only the objectives and directions of a policy move but also the benchmarks of the implementation process. "How to get there" is a clear-cut managerial priority. The experiences of many countries provide overwhelming evidence that policy implementation is never an automatic process and requires coherent and sustained efforts. The ability to learn while doing may be as important as the ability to maintain flexibility in implementation management.

V. Recommendations

A. National level

51. In order to attain the millennium development goals, outlined in General Assembly resolution 55/2 of 8 September 2000, and advance development and the

overall well-being of people, national macroeconomic and social policies must be effectively coordinated and integrated. Social development objectives, such as full employment, reduction of inequality and poverty, social protection and the provision of basic social services must receive balanced weight in the formulation of macroeconomic policies. Policies must be tailored to national institutional conditions, technical capabilities and methods of governance. Patterns such as these will promote consensus-building, create national policy ownership and increase the likelihood of the policies' success.

52. In the interest of consensus-building, creating national policy ownership and increasing their likelihood of success, macroeconomic and social policy formulation and decision-making should be conducted through inclusive and institutionalized consultations that involve government ministries and parliaments as well as the social partners and representatives of the poor. Where low-income groups have limited capacity to make a meaningful contribution to social development, the State should play an active role in capacity-building for the poor in order to help them to articulate their needs and interests.

53. For countries undertaking economic reforms, the macroeconomic policy emphasis on stabilization and allocational efficiency needs to be balanced with respect to the social objectives of creating employment; reducing poverty, inequality and social exclusion; and minimizing and mitigating economic shocks to the poor and economically vulnerable.

54. Countries should aim to spend at least the minimum required to achieve universal coverage of social services and, where serious difficulties exist, receive external assistance to do so. Equity in the funding of social services should be enhanced, inter alia, through progressive taxation or, in countries where tax collection is difficult, through community-based schemes. Prepayment (for example, through taxes and social protection schemes) for health care should be encouraged. Cost recovery for basic services such as minimum health provision and basic education, as well as for services for people with disabilities, should be avoided. High-quality universal services should be the overarching goal of the social sector, with supplementary measures introduced for targeted groups with special needs.

55. Social assessment, which is a very useful tool for Governments to improve their policy-making, improves efficiency, coordination of activities and programme implementation. It enables the evolution of policy and the delivery of services, as well as the strengthening of participation and governance. It can also be utilized in the private sector to encourage and focus on corporate social responsibility. In order to facilitate the introduction of social assessments onto the agenda it is necessary to foster the development of a social policy community, or community of experts on social issues and policy. This process can be helped through greater governmental recognition and support for the work carried out by social policy professionals, by expanded public discussion and debate on major issues of social policy and by greater investment in the social sciences.

56. Active participation by the private sector and non-governmental organizations in financing and providing social services should be encouraged. Community involvement in social programmes should also be promoted. Constructive partnerships among all stakeholders should be fostered by the State. The stewardship role of the State in the social development process needs to be strengthened in order to coordinate the resources and efforts of all social partners.

B. International level

57. Spending in the social sector should be linked to government efforts to achieve the millennium development goals, which will require that expenditures not fall below a certain level. Setting an international standard for the minimum proportion of national income to be spent on social sectors would encourage the adoption of national targets. Such a standard would also play an important role as a "political contract" for allocating funds for social development within national budgets and provide a context for contributions by bilateral and multilateral donors.

58. International development organizations and bilateral donors should intensify their efforts to provide both financial and technical assistance in order to strengthen the national capacities of developing countries and economies in transition in the areas of social and macroeconomic policy-making.

59. The process of preparing Poverty Reduction Strategy Papers must ensure community involvement in strategy formulation. Parliaments can play a vital role in the discussion of such national strategies.

60. International donors should be sensitive to local perceptions of needs, culture and circumstances and align aid with national development goals. At the same time, accountability from local communities, NGOs and Governments receiving aid increase donor motivation to increase support.

61. For countries undertaking structural reforms, international financial institutions should intensify their new approach of conducting inclusive consultations and developing and encouraging the participation of a broad range of ministries in programme development and negotiations and in helping Governments to explain the country's programme to the press and to civil society, business and labour groups.

62. Social policy development will be strengthened by specifying key conceptual linkages, building evidence and then making strategic choices. Additional research, particularly empirical research and social impact assessment, is necessary to evaluate the interaction between macroeconomic and social policies and to reconcile conflicting policy agendas. While it is necessary to document the negative social and economic impacts of macroeconomic policy, it will ultimately be more constructive to demonstrate that investment in certain types of strategies is productive for both social development and the macroeconomy. As it is not possible to do everything, policy makers must be given the evidence and tools to choose strategies that are likely to provide the greatest benefits in particular circumstances.

63. A strategic approach is needed to demonstrate that increasing social expenditure is not only desirable but cost-effective. Such a strategy could include the following steps:

(a) Explicit calculation of the economic costs (in terms of low productivity, limited competitiveness in international trade, and low attractiveness to foreign direct investment), and of the social costs of current social problems;

(b) Calculation of the potential economic gains of adequate investment in comprehensive, effective social policy;

(c) Definition of the required social outcomes and the precise means to achieve them, recognizing that social outcomes are also dependent on coherent economic policies;

(d) Pursuit of an advocacy process linked to the Commission for Social Development and the Economic and Social Council, with the participation of politicians and private sector leaders, would add political credibility to the arguments and emphasize the value of increased expenditure;

(e) The Commission for Social Development could, in collaboration with the International Conference on Financing for Development, initiate a review of existing initiatives for the mobilization of resources for social development. This review would include activities engaged in by the private sector and other private sources (e.g., private foundations, individuals) that channel funds to social expenditures and would provide recommendations for new sources and measures. The review could also include an authoritative study of good practices in private sector participation in social policies;

(f) The Commission for Social Development may wish to recommend that Member States establish a mechanism at the intergovernmental level to share experiences on how to solve the problem of conflicting priorities in the context of national budgets and budget formulation.

Notes

[1] Amartya Sen, *Development as Freedom* (New York, Anchor Books, 2000).

[2] Joseph E. Stiglitz, "Employment, social justice and societal well-being", keynote speech to International Labour Organization Global Employment Forum, held at Geneva from 1-3 November 2001.

[3] See Ravi Kanbur, "Economic policy, distribution and poverty: the nature of disagreements", *World Development*, vol. 29, No. 6 (June 2001).

[4] United Nations Development Programme, *Human Development Report 2000: Human Development and Human Rights* (New York, Oxford University Press, 2000).

[5] "Globalization and Equity", *Report on the World Social Situation 2001*, chap. III (United Nations publication, Sales No. E.01.IV.5). Conclusions based on an econometric analysis of inequality trends for 77 countries accounting for 82 per cent of world population, supported by reviews of country and regional studies.

[6] See, Nancy Birdsall and Juan Luis Londoño, "Asset inequality does matter: lessons from Latin America" (Washington, D.C., Inter-American Development Bank, 1997), and Woojin Lee and John Roemer, "Income distribution, redistributive politics and economic growth", *Journal of Economic Growth*, vol. 3, No. 3 (1998), pp. 217-240.

[7] A/AC.253/13-E/CN.5/2000/2, chap. XIII.

[8] A/AC.257/27/Add.3.

[9] Ibid.

[10] M. Moore, "States, social policies and globalisation: arguing on the right terrain?", paper presented at the conference on "Re-visioning Social Policy for the 21st Century", University of Sussex, Institute of Development Studies (IDS), Brighton, United Kingdom, 28-29 October 1999.

[11] Lance Taylor, ed., *External Liberalization, Economic Performance, and Social Policy* (New York, Oxford University Press, 2001).

[12] United Nations Development Programme, *Human Development Report 2000: Human Development and Human Rights* (New York, Oxford University Press, 2000).

[13] See "Corporate social responsibility", *Report on the World Social Situation 2001* (United Nations publication, Sales No. E.01.IV.5), chap. XX.

[14] Part IV, in particular sections A, B and C, draws heavily on the respective outcome documents from the three expert group meetings mentioned above (see annexes I, II and III of the present report).

[15] Throughout history, many poor countries have succeeded in improving the educational attainment of their population prior to economic take-off. Examples can be found in Botswana, Costa Rica, Japan, the Republic of Korea and pre-industrialized Scotland (see "Education as a prerequisite of sustained growth", in *World Economic and Social Survey 2000*, chap. VI (United Nations publication, Sales No. E.00.II.C.1).

[16] For details, see annex II, paras. 8-10.

[17] Another example relates to the independence of the central bank. Its independence is not the same as non-representativeness; one can have an independent central bank where the differing interests of different stakeholders are represented. "It is not the case that there is a single Pareto dominant policy, one to which all 'reasonable' people can agree, and so long as that is the case, one cannot, or at least, should not, delegate decision-making to technocrats, and even less, should one delegate decision-making to one group whose interests are markedly different from others". (Joseph E. Stiglitz, "Employment, social justice and societal well-being", keynote speech to International Labour Organization Global Employment Forum, held at Geneva from 1-3 November 2001.

[18] *Social Dimensions of Macroeconomic Policy*, report of the Executive Committee on Economic and Social Affairs of the United Nations (New York, ECESA/4, 22 June 2001).

[19] World Bank, *World Development Report-2000/2001: Attacking Poverty* (New York, Oxford University Press, 2001).

[20] Ibid.

Annex I

Social aspects of macroeconomic policies[a]

1. Macroeconomic policies have significant social aspects, both in the short run and in the long run. The short-run social aspects of macroeconomic policies are often seen in negative terms and in terms of social costs, even though the social aspects and implications of growth-oriented macroeconomic policies are generally positive and often overlooked. There are, however, significant interactions between social development and macroeconomic policies that occur in the absence of macroeconomic crisis or stress and that are positive or mutually reinforcing. Perhaps the most important is the vital relationship between growth-oriented macroeconomic policies on the one hand, and the level of poverty and the rate of growth of employment on the other. The positive impact of human capital on long-term economic growth is well known. Other areas being examined and researched include the effects of health and health programmes on growth, the effects and efficacy of social programmes and social cohesion in mitigating negative impacts of macroeconomic shocks, and investment and expenditures in the social sector as a productive factor.

2. Given the complementarity between social development and growth-oriented macroeconomic policies, both in the short and long run, the agreed commitments to poverty reduction and employment growth need to be rigorously incorporated within the framework of macroeconomic policy objectives in order to integrate macroeconomic and social policy-making at all stages of the development process.

A. Why is there a need to broaden macroeconomic policy objectives?

3. Good economic policy starts with concern for the well-being of people. The extent and persistence of global poverty, inequality in both incomes and opportunity, and economic and physical insecurity are alarming. In response, the international community, through various international forums, has widely expanded the set of social objectives for the development process, including giving priority to explicitly stated outcomes and proposing options for attaining them. In so doing, it has significantly enhanced the understanding of the development process. This represents a move to a broader approach to development as a comprehensive and integrative process, encompassing political, social and economic aspects of human and societal change, and includes a call for active policies in order to achieve social objectives.

4. This approach is reflected in the development goals of the millennium declaration adopted by the States Members of the United Nations after extensive consultation with international development organizations. Among the several goals agreed upon, one explicitly calls for halving, by 2015, the proportion of people whose income is less than one dollar a day. Another calls for halving, during the same time period, the proportion of people who suffer from hunger. These goals are not only benchmarks for policy formulation, but are also mutually reinforcing and provide an operational framework for international cooperation.

5. In addition to moral arguments and the international political consensus to address these moral imperatives, there are also practical reasons for reassessing the

concept of macroeconomic policy and redefining it more broadly to encompass social objectives. One very pragmatic reason is that the promotion of a harmonious and cohesive society is in a country's economic and political interest so as to prevent costly social disruptions stemming from poverty or social exclusion. Since the accumulation of social problems can undermine economic growth and political stability, it is a practical necessity to integrate social objectives into economic decision-making.

6. Another practical reason stems from the development experiences of the past two decades, particularly those related to structural adjustment. These experiences have shown that macroeconomic policies that do not take into account or that underestimate the social dimension cannot be sustained owing to a lack of social consensus and cohesion, and that they often cause considerable social costs. This experience has been re-emphasized by the Asian financial crisis of 1997-1998. In order to minimize and mitigate these social costs, there is a wide consensus that social factors and a broader development strategy should be included in structural adjustment policies, and a growing view that the social dimension must be a central focus of macroeconomic policy-making in general.

7. Consequently, macroeconomic policy priorities should reflect not only economic, but also key social development objectives. In addition to the major traditional macroeconomic fiscal and monetary performance objectives, such as steady growth, general price stability and fiscal balance, explicit social objectives should also be included in macroeconomic policy-making, including employment growth, poverty reduction and social protection as well as the adequate provision of basic social services (e.g., education and health care). Macroeconomic objectives should also take into consideration the equity dimension, including the objective of reducing income inequality, and should not ignore the disparate effects that macroeconomic policies may have on women and men and these effects on gender equality. The balance between these objectives reflects to a certain extent prevailing norms, customs and values in a society, but in the end it is often a political decision reflecting political will that is required to address these issues.

B. Structural adjustment and economic liberalization

1. Social implications

8. Much of what has been learned about the social implications of macroeconomic policies comes from the experience over the past two decades with structural adjustment. The 1980s and early 1990s were an exceptionally difficult period for low-income developing countries, particularly in Africa. Many economies had been brought to the brink of collapse by years of adverse external shocks, internal economic imbalances and macroeconomic instability, culminating in the debt crisis of the 1980s. As Governments confronted the task of restructuring and rebuilding their economies, per capita incomes stagnated or declined. During the structural adjustments, social expenditures were often squeezed, leading to declines in the coverage of health care and the provision of education. At the same time, social programmes were not given the means with which to cope with the increased demand for their services.

9. It has been widely recognized that the social costs of adjustment programmes have often been considerable, especially for the poor. While many argue that price

stabilization is essential to restore growth and attain social objectives, the experience with structural adjustment has led others to argue that undue emphasis has too frequently been given to price stabilization at the expense of social objectives.

10. For example, macroeconomic performance during structural adjustments has often been assessed using policy indicators and objectives such as lowered inflation, balanced budgets or balanced current accounts, while either ignoring or giving much lower priority to other objectives such as poverty reduction, social equity or employment. In many instances, increased poverty and unemployment were viewed as inevitable side effects of the medicine necessary for re-balancing the economy. However, structural adjustment programmes have often not brought about the level or rapidity of increased, sustained growth rates or accompanying positive social impacts that were hoped for or expected. These experiences have led to a growing consensus about the need to give all the different development indicators — social, as well as economic — more balanced and appropriate weights in the formulation of goals for macroeconomic policies.

11. Restructuring policy reforms have placed a strong emphasis on market forces and the efficiency of markets under non-distorted prices. "Getting the prices right"[b] has been a key element of the economic policy prescriptions of the Bretton Woods institutions and have been regarded as a necessary condition for economic efficiency and growth. However, many development experts argue that some country experiences have shown that this has not always been a necessary condition and that the social costs from adjusting to the drastic removal of price distortions may well have had significant negative effects on short-term growth, in many instances introducing different types of price distortions due to increased market failures. The macroeconomic policy emphasis on stabilization and allocational efficiency needs to be balanced with minimizing and mitigating price shocks to the poor and economically vulnerable, creating employment, and reducing poverty, inequality and social exclusion.

12. For many countries, economic restructuring and getting the prices right has also included trade liberalization. The process of liberalizing trade has also often involved painful transitions while failing to contribute immediately or even in the long run to economic growth. In some cases, the transition period involved a reduction in living standards for many segments of the population. Although the developing countries have relatively low labour costs, which give them a potential advantage in the production and trade of labour-intensive products, many of these countries lack other conditions necessary for the development of a viable export sector, such as road and port infrastructure, a skilled, sophisticated and adaptable workforce and access to capital and manageable interest rates.

13. To make the necessary investments that will enable a country to develop its production capacity and foster its dynamic comparative advantage, it has been argued by several development experts that it may be essential to make effective and active use of non-neutral trade policies during the transition period. For countries undertaking trade liberalization, active government involvement may be necessary with a view to sequencing reforms in line with country-specific capacities and institutional conditions and settings. This would allow Governments to implement effective strategies and policies in order to mitigate the social costs of the transition

period, particularly those borne by unskilled workers, especially women and the poor.

14. Economic restructuring often also included the liberalization of a country's capital account. Economists' opinions are divided with regard to this issue, and after the Asian financial crisis they have continued to debate the advantages and disadvantages of capital account liberalization for developing countries. In an age of globalization, funds can be moved simultaneously from one country to another and can quickly cause financial turbulence and bring about much economic and social upheaval. Given that in an open economy monetary authorities have less control in managing monetary aggregates, administrative measures, such as capital account restrictions, need not be excluded a priori as a possible measure to enhance the impact of policies on domestic monetary aggregates and reduce uncertainties regarding their future trends.

15. Critics argue that liberalization limits the scope for counter-cyclical policies, resulting in greater macroeconomic and social vulnerability to externally induced shocks. Several also argue that when implementing counter-cyclical policies, these policies should prioritize social spending. These critics state that such policies have stronger linkage and multiplier effects than economic or military spending and that macroeconomic balances over the medium-term, rather than over the short-term, should be emphasized to provide greater scope for policies of this nature.

16. Perhaps most importantly, the experience with structural adjustment programmes has shown that the efficacy of macroeconomic policies hinges not only on economic factors, but also on country-specific social, economic, political and institutional conditions. There is wide consensus that the particular political conditions in a country constitute a critical factor influencing the probability of success of macroeconomic policies. Political conditions in this context encompass not only governance and institutional factors, but also the influence of poverty and inequality on social stability. Furthermore, macroeconomic and other traditional policy tools have often disregarded informal, subsistence and domestic care sectors, so that the impact of policy tools has therefore been weakened. Social stability, development and cohesion proved to be not only policy objectives, but also important conditions for sustained economic growth.[c]

2. Some country examples

17. This section does not attempt to give regional overviews or representational analyses of country experiences with structural adjustment and liberalization. However, it does give some country examples of macroeconomic policy changes during such adjustments and liberalization in order to illustrate some of the social implications of macroeconomic policies and, in at least one instance, shows some of the macroeconomic implications of social development policies as well.

18. In Africa, Ghana and Uganda are two examples of countries that have undergone successful economic reform and recovery.[d] Growth rates have been high in both countries, and both have experienced significant reductions in consumption poverty and an improved income distribution.[e] However, even as successes, Ghana and Uganda also illustrate the importance of the social dimension, as during this time poverty increased for certain regions or groups. In both countries many poor groups benefited from the reforms, but other poor households, notably those in

remote locations, those relying mainly on subsistence food crop production and those not working, did not fare well and experienced increased poverty.

19. Small countries, such as small island development States, are particularly vulnerable to adverse changes in the external economic environment, such as fluctuations or shocks in commodity prices, which have significant social impact. For example, in Jamaica these price fluctuations or shocks included both the import side, such as the oil price shocks of the 1970s, and the export side, such as the prices of the major export commodities of bauxite and sugar. Jamaica's experience with structural adjustment programmes also illustrates the high social costs that can accompany such programmes. Since undertaking structural adjustments, some macroeconomic performance measures have improved significantly, such as the sustained reduction in the rate of inflation. However, the country's debt repayment burden greatly increased, resulting in severe constraints on the availability of resources for social expenditure. In spite of measures taken to mitigate some of the social costs, such as the implementation of a targeted food stamp programme for the most vulnerable groups after the elimination of general food subsidies in the mid-1980s, and the introduction of a national poverty eradication programme in the 1990s, social progress has been affected by the process of economic restructuring. Trends in the incidence of poverty data reveal that, after peaking in 1991, there were steady decreases in the rate until 1998 but with increases thereafter. This indicates the need for sustainability of gains made in the social development agenda.

20. The transition to a market economy for the economies in transition has come with a terrible social cost.[f] According to many experts, "sound macroeconomic policies" in economies in transition, often implemented on the advice of international development institutions, did not take into account an adequate contribution to support the provision of social services. These economies experienced growing inequality, not only in income but also in access to social services, in large measure due to the drastic reduction in public expenditures in all social services. In addition, the share of female employment fell significantly with respect to that of males, resulting in large measure from discrimination, especially by private sector employers, but also by public sector companies during labour force reductions.

21. Of the economies in transition, Poland is an interesting example of combining social and macroeconomic policies.[g] A striking aspect of macroeconomic policies in the early years of the transition was the sharp increase in the level of government cash transfers to individuals. Poland's transition process did lead to unemployment, significant job destruction, a rise in poverty, greater diversification of wages and increased earnings inequality. However, through a generous system of social transfers — especially pensions — the Government mitigated the rise in income inequality and facilitated enterprise restructuring and market-oriented reforms. This has also come at a cost. The high level of social spending led to budget deficits of about 3 per cent of GDP, which may not be sustainable. Poland now faces the challenge of restoring fiscal balance while keeping the social security system effective and preserving the important gains of the 1990s.

22. The experience of several East Asian countries shows that strong social policy commitments enhanced economic growth on a relatively equitable basis. Similar considerations also ensured strong economic recovery in the Republic of Korea and Malaysia after the 1997-98 financial crises.

23. In the Republic of Korea, during the decades following the war the clear priority was given to economic growth based on rapid labour-intensive and export-oriented industrialization. However, during this "miracle period" of "sheltered capitalism" and continual growth, full employment and a commitment to education were the main mechanisms through which the benefits of growth were distributed to the workers. The growth of industry not only resulted in full employment for the urban worker, but also expanding opportunities for people in rural areas and those — especially women — engaged in the informal sector who were able to move to better-paid jobs in the more productive industrial and service sectors.

24. In the 1980s and 1990s, the opening of the economy to international competition and capital flows was accompanied by the implementation of a wide range of comprehensive social programmes, such as pension insurance, universal health insurance and, in 1995, unemployment insurance. This development was the result of the process of the legitimization of the State, popular demands and democratization. Even though the economic slump following the 1997 financial crisis caused widespread distress, the effects of the crisis were partially cushioned by existing as well as newly established social programmes. Although the existing programmes may still have limitations, the Republic of Korea is now implementing its modern social programmes, which could be very effective in the future.

C. Integrating macroeconomic and social policy-making

1. Strengthening integrated public policy

25. As illustrated by the experiences with structural adjustment and economic liberalization, the integration of macroeconomic policy objectives with the wider objectives of social development is crucially important, not only for the attainment of social goals, but ultimately for the success of macroeconomic policies themselves. The benefits from this integration apply not only to developing countries and economies in transition, but also to developed countries.

26. It is necessary, however, to tailor policy recommendations to the economic and institutional conditions, professional capabilities and quality of Government at the national level. International development organizations and bilateral donors must aim to provide supportive technical assistance in order to strengthen national capacity in these areas. It is essential to enhance the role of national government agencies dealing with both social and macroeconomic matters, strengthening their capacity.

27. Along with the quality of public institutions and professional capabilities, consensus-building and the role of civil society are crucial in the formulation and implementation of public policy. National government bodies remain the ultimate providers of macroeconomic and social policies, and it is their responsibility to create a stronger link between economic and social development. At the same time, public policy formulation and decision-making should be open to wide participation, including the active involvement of trade unions, employers and other civil society organizations.[h] Open public discourse can facilitate improvement in the design and formulation of social policy as well as consensus-building. In turn, full transparency and the involvement of citizens, both men and women, can increase the legitimacy of public policy and the likelihood that it will be implemented. To achieve better integration of economic and social policy, other consultations that involve social

dialogue between government ministries as well as unions, employers and non-governmental organization social partners should be institutionalized and become a regular practice.

28. In terms of structural adjustment, inclusive consultations have been introduced through the International Monetary Fund (IMF) Enhanced Structural Adjustment Facility (ESAF).[1] IMF missions are now actively encouraging participation of a broader range of line ministries in programme negotiations, to ensure that those charged with implementation can contribute to the design of government programmes. The International Monetary Fund is also increasingly involved in helping Governments present country programmes to the press and in organizing conferences with civil society, business and labour groups. With the growing trend towards political liberalization in some countries, more of civil society is participating in the debate.

29. In addition, the World Bank and a broad global network of some 250 non-governmental organizations and other civil society groups have worked together since 1997 to review the impact of adjustment lending and policy advice in selected countries.[2] This initiative, known as the Structural Adjustment Participatory Review Initiative, was developed through consultations between a World Bank team and an NGO/civil society network steering committee. It aims to improve understanding of the impacts of adjustment policies as well as the ways in which the participation of local, broad-based civil society actors can improve economic policy-making. The World Bank and IMF are also preparing a methodology for ex ante social and environmental impact analysis of structural adjustment programmes.

30. Perhaps most significantly, member countries are increasingly choosing to publish the documents underlying their IMF-supported programmes — a trend that accelerated following the spring 1999 decision of the International Monetary Fund Executive Board supporting such publication. This is expected to spark a more vigorous and informed national debate on economic policies, and there is some evidence that it is already doing so, leading over time to greater ownership and government accountability, and hence to more consistent policy implementation.

31. Open, transparent consultations such as these, which include government ministries, civil society and international financial institutions, are also necessary to give a country a sense of policy ownership. It is essential that countries dealing with the international financial institutions quickly develop the capacity to determine their own policies and arrange them effectively. Even if painful, such policies can make a significant difference if Governments adopt more of them in the interest of a better future.

32. A significant part of the consultation process involves opening communication, bridging communication gaps and moving beyond stereotypes. While this is a part of any public policy consultation, some particular communication gaps in the area of macroeconomic policy and social development need to be confronted and addressed.

33. A major criticism expressed by social development experts and advocates towards macroeconomic policy makers, both in national Governments and in international financial institutions, is that they are not sufficiently concerned with nor do they appreciate the social dimension. The social costs associated with choosing or implementing particular macroeconomic policies are sometimes

ignored, not well understood or not taken explicitly into account, and either alternative policies are neglected or associated policies that mitigate the negative social effects are not considered. Critics view such macroeconomic policy makers as "lacking heart" and being "technocratic", caring more about narrow macroeconomic targets than about the suffering that these policies and targets cause to others.

34. In contrast, macroeconomic policy makers may view their critics as not understanding macroeconomics well. They therefore see such critics as not appreciating the importance of growth and low inflation, or as not understanding the priority of restoring sound macroeconomic management and its implications for financial markets and a country's ability to attract future credit or investment. At the extreme, macroeconomic policy makers may view their critics as promoting their own particular cause or as being too "soft" and not able to appreciate the "tough" decisions that must be made when conducting macroeconomic policy-making.

35. The two conflicting sides are perhaps summarized by the following citations: "Concern for the welfare of the poor is a weak excuse for inaction and the perpetuation of failed policies",[k] but "There is also a danger that a culture of toughness prevails over a culture of analysis".[l] Through dialogue and the exchange of information and analysis, communication gaps such as these need to be narrowed and filled. One example of an area in which an exchange of views between specialists in economic and social development has had an impact on mainstream discussion and advanced the analysis is the area of poverty. This is illustrated by the analysis on poverty in the *World Development Report 2000* as compared to the analysis on poverty ten years earlier in the *World Development Report 1990*. While the 2000 *Report* does not repudiate the 1990 vision, it does amplify it, expanding the concept of poverty from one of deprivation to a social concept, giving attention to such issues as vulnerability, inequality and human rights, and broadening the causal structure of poverty to include social, political, cultural, coercive and environmental variables. This evolution of mainstream discussion and analysis in the area of poverty serves as a constructive model for addressing communication gaps between the areas of macroeconomic policy and social development.

2. Integrating macroeconomic and social policies

36. With respect to the specific integration of macroeconomic and social policies, country experiences show that there is no single best way to carry it out. The specific configurations of underlying conditions, which are structural, institutional, cultural, and class- or gender-related, should be taken into account. Macroeconomic policies are essentially only a means to an end, and not an end in themselves. As stated earlier, societies differ in assigning different values or priorities to a mix of economic and social objectives. Whatever the ultimate goals, however, macroeconomic policies can only be assessed — together with social and structural policies — against their impact in reaching a country's desired social and macroeconomic objectives.

37. It is also important to understand the "bigger picture" in which macroeconomic policies are implemented in order for them to be well formulated. This includes the social and political arrangements in the country and the way in which they interact with macroeconomic policies. It is necessary to pay better attention to the political dimensions of economic decision-making, and to their constructive or destructive influence on the attainment of social objectives as well as on the efficacy of

macroeconomic policies. Close coordination and ex ante impact analysis of macroeconomic policies is highly desirable. However, as with the consultative process, this close coordination should not be limited only to those actors normally in charge of advising on matters of macroeconomic policies, namely the ministry of finance and the central bank. Nevertheless a commitment to democracy and to accountability requires ministers to have ultimate responsibility for advising on the content of macroeconomic policies.

38. Achieving stable and sustained economic growth is an important element of both sound macroeconomic and social development policies. Although economic growth by itself is not sufficient to bring about the desired levels of employment growth, poverty reduction and increased social services, and despite significant differences across countries and over time in how much poverty reduction occurs at a given rate of growth,[m] it remains an extremely important element in the attainment of these and many other social goals. Advancing social objectives will, in turn, further promote long-term economic growth by creating and improving human resources and fostering social cohesion. In this context, the absence of coherent social policies and the exclusion of social groups from socio-economic policies can result in social disruption, which is detrimental to growth and ultimately, to development prospects.

39. The impact of macroeconomic policies on social development depends not only on their effect on economic growth and stability, but also on their effect on areas such as fiscal policies, firms' investment decisions and increases in employment and real wages. A sustained decline in the rate of unemployment and a sustained rise in real wages are often reasonable indicators for assessing the attainment of several social objectives. Lower rates of unemployment and higher real wages indicate not only rising well-being but also the inclusion and participation of labour in the growth process. Lower rates of unemployment also have implications for reducing poverty, as a strong correlation exists between employment creation and poverty reduction. Increases in real wages can also be a good indicator of a more egalitarian sharing of the benefits of economic growth and of the inclusiveness of the growth process.[n]

40. Fiscal policy is another area in which macroeconomic policy can impact social development. In the majority of developing countries, the need for the provision of basic social services is obvious, particularly for the low-income segments of the population. In the framework of the Poverty Reduction Paper Strategy approach, pro-poor fiscal policies, including matters addressing the efficiency and effectiveness of public spending, have gained considerable importance. Several countries have also made efforts to incorporate the gender dimension into the formulation of national budgets (i.e., "engendering" budget initiatives). With the technical support of international organizations, many countries have started to better integrate pro-poor fiscal policies within the broader macroeconomic framework. In this context, the following critical issues must be addressed:

(a) How can additional public expenditures be financed in a sustainable way, since the scope for internal revenue increases is limited (at least in the short-term)?

(b) How can external loan financing be managed to prevent renewed over-indebtedness?

41. Given these issues, it seems advisable to avoid too narrow a focus on the public budget and look for a broader approach. One question concerns the ways in which fiscal, structural and social policies can be redesigned to be more effective and facilitate the constructive roles of other actors, such as the private sector and civil society. Non- or low-expenditure activities to address weaknesses in the institutional and legal framework so as, for example, to reduce uncertainties and transaction costs should be considered as complementary priorities. Enabling better and more equitable access to productive assets (through, for instance, land reform) could be highly cost-efficient and promises a long-term positive impact on growth, while at the same time reducing inequalities, including those between men and women.

42. Macroeconomic policy should pay special attention to the development of both human and social capital. Towards that end, in addition to meeting basic needs, providing access to education, and empowering and increasing the voice of stakeholders, two elements are gaining increasing importance: making new information technologies available to wider segments of the population; and building productive assets, especially for the poor, both men and women, at the household level.

43. Government policies to assist the asset-building of lower income groups is a promising strategy for social development. In some countries, such as the United States, asset-building has proven to be successful in improving self-esteem, political participation, family stability and the education of offspring. It may eventually become a viable alternative to income support policies; asset-building generates income, which reduces inequality and stimulates growth.

44. Asset-building is not limited to the creation of new assets. The existence of a large informal sector in many developing countries indicates the need to formalize or legalize assets in this sector with a view to integrating informal businesses into the formal market economy. Establishing legally recognized ownership of assets of informal sector businesses may prove to be a cost-effective way to foster economic growth and social inclusion.

45. When formulating macroeconomic and social policies, their impact on different areas needs to be taken into account. These areas include the informal and non-market sectors, particularly non-market labour, such as subsistence farming and services in exchange for commodities, and unpaid labour, such as household and reproductive work, as well as income and gender inequality. Presently, these policies focus primarily on the market economy and therefore have differential effects on subsistence farmers and on men and women. As a result, both income and gender inequality increase, often leaving women poorer or in more precarious conditions. The policies also fail to take into account large inequalities in the distribution and control of resources and in the allocation of funds. The quality of working life, working conditions and intensity of work, and their effects on certain sectors of the population, depend upon all of the above factors and they cannot be overlooked when formulating socio-economic policies.

46. Macroeconomic policies have traditionally disregarded the gender perspective.[9] Gender is a category of social and economic differentiation that affects the distribution of work, income, wealth, productivity of inputs and economic behaviours of agents. A gender perspective is also necessary to reproduce and maintain the labour force in a society. The link between a market economy

(monetized) and reproductive work (non-monetized) was traditionally neglected by economics and the functioning of reproductive work was taken for granted regardless of the way in which its relationship to the market economy was defined. Downward fertility trends, seen especially in all transition countries, clearly indicate that this approach has to change and that the relationship between the market and reproductive work has to be properly defined.

47. As mentioned several times above, the success or failure of macroeconomic policies and social programmes in all countries depends not only on external factors, but also on internal conditions, particularly the social and institutional configurations. For example, when analysing a country's social protection system and its performance in providing protection against macroeconomic shocks and policy changes, it is important to observe whether it is inclusive or exclusive, including from a gender perspective. An exclusive system leaves out coverage of a certain segment of the population, while an inclusive system provides basic social services to the entire population. Inclusive systems should be promoted because they help to promote equality and better mitigate the negative consequences of economic shocks and crises.

48. However, in some developing countries, social security is very segmented and includes mainly the fully employed and middle and high-income households. In societies where the level of polarization is high, it has proved to be far more difficult to combine macroeconomic policies with social policies. According to many critics, reforms affecting social security systems, implemented on the advice of the Bretton Woods institutions, led to increased inequality and greater vulnerability to external shocks because the social protection schemes were highly exclusive. Social integration should be one of the key dimensions of the integration of economic and social policies.

49. Privatization of social security can also aggravate exclusion in the provision of public/merit goods. In Chile, owing to extensive privatization of social security, effective coverage of old-age risk and provision of retirement income has decreased because it is estimated that a large number of members have not kept current with their mandatory contributions. This adverse situation is explained by a number of factors, such as voluntary or involuntary interruptions of employment due to job changes, including the departure on a temporary or permanent basis of female workers from the formal labour market, as well as the suspension of contributions by independent workers caused by pressing economic difficulties. As a result, coverage has declined from 72 per cent prior to privatization to 60 per cent today,[p] and women's pensions are currently 60 to 70 per cent lower than men's pensions.[q]

50. Finally, an integrated socio-economic approach should include elements for the protection of human rights, which are an integral part of the overall quality of life and include basic economic and social rights. Human rights are indivisible — those who suffer deprivation of economic rights also suffer deprivation of other rights. In this context, economic policies should address issues like decent working conditions, pensions and social protection for the weakest and most vulnerable in society.

D. Research and evidence

51. Efforts to integrate macroeconomic and social policies and reconcile conflicting policy agendas may benefit from additional research, in particular social impact assessment studies that bring the needs and opinions of stakeholders and policy beneficiaries closer to the policy-making process. This endeavour, in turn, points to the need to enhance the capacity of developing countries to carry out the socio-economic research required for improved policy design and implementation. The lack of data in many developing countries, including the lack of gender-disaggregated data, can sometimes be an obstacle to the execution of comprehensive social impact assessments. There is, however, usually enough information to carry out adequate assessments that can usefully inform policy makers.

52. Advocates for social development will be more successful if a systematic body of evidence is available on the social impacts of macroeconomic policy, particularly on policy measures taken in response to crises. Therefore, additional empirical research is necessary to evaluate the social impact of macroeconomic policies, as well as the impact of social development on economic growth and on the success of macroeconomic policies. While it is necessary to document negative social and economic impacts of macroeconomic policy, it will ultimately be more constructive to demonstrate that investment in certain types of strategies is both good for social development and good for the macroeconomy. A promising line of research would concern positive economic returns to certain types of social development.

53. In order to demonstrate the benefits of social development, theory must be specified and tested, and from this a body of credible thinking and evidence must be built. The field of social development should move from unbounded discussions to productive ideas by specifying key theoretical linkages, building evidence and then making strategic choices regarding policy. While it is never possible to do everything, such research can help policy makers choose strategies that are likely to have the greatest benefits in particular circumstances.

54. Regarding promising strategies, it would seem desirable to focus on social and economic development at the household level, because this is where long-term wealth is built and where social and economic objectives coincide. One avenue would be a concentration on capabilities as defined in the work of Nobel laureate Amartya Sen.[f] Capabilities might include meeting basic needs, providing access to education, connecting to the Internet, increasing voice and freedom, and building tangible assets. Each of these strategies can be specified and tested, and each is likely to have multiple positive social and economic effects.

Notes

[a] Final report of the expert group meeting on the "Social aspects of macroeconomic policies", New York, 5-7 November 2001.

[b] "Getting the prices right" refers to removing market distortions, such as subsidies, price controls, quotas or high tariffs, so that prices reflect relative economic scarcities rather than political decision-making. This is to improve the allocative efficiency of markets. The prices in question are domestic prices relative to both other domestic prices and to global market prices. Prices include not only the prices of goods in product and factor markets, but also interest rates and exchange rates.

[c] See, for example, Willem van der Geest and Rolph van der Hoeven, "Adjustment, employment

and missing institutions in Africa" (Geneva, International Labour Office, and London, James Currey, 1999).

[d] Shantayanan Devarajan, David Dollar and Torgny Holmgren, eds., *Aid and Reform in Africa: Lessons from Ten Case Studies* (Washington, D.C., World Bank, 2001).

[e] World Bank, Washington, D.C., 2000. *Can Africa Claim the 21st Century?*

[f] See Ewa Ruminska-Zimny, "Globalization and transition economies", in *Human Development Report 1999*, background papers, vol. II (New York, United Nations Development Programme, 1999).

[g] See Michael P. Keane and Eswar S. Prasad, "Poland: inequality, transfers, and growth in transition", *Finance and Development*, vol. 38, No. 1 (March 2001).

[h] International Labour Organization, Report of the Director-General on reducing the decent work deficit — a global challenge, eighty-ninth session of the International Labour Conference, held at Geneva, June 2001.

[i] International Monetary Fund, *The IMF's Enhanced Structural Adjustment Facility (ESAF): Is It Working?*, (Washington, D.C., 1999). Available from http://www.imf.org/external/pubs/ft/esaf/exr/index.htm (accessed 23 November 2001). The IMF Enhanced Structural Adjustment Facility is being replaced by the Poverty Reduction and Growth Facility (PRGF), which will be based on a county's Poverty Reduction Strategy Paper (PRSP) and will reflect the inclusion of an explicit focus on poverty reduction in the context of a growth-oriented strategy. See International Monetary Fund, *The IMF's Poverty Reduction and Growth Facility (PRGF): A Factsheet* (Washington, D.C., 2001). Available from http://www.imf.org/external/np.exr/facts/prgf.htm (accessed 23 November 2001).

[j] World bank, *Structural Adjustment Participatory Review Initiative*, project description. Available from http://www.worldbank.org/research/sapri/saprdescnew.htm (accessed 26 November 2001).

[k] International Monetary Fund, *External Evaluation of the Enhanced Structural Adjustment Facility* (Washington, D.C., 1998).

[l] Ibid.

[m] World Bank, *World Development Report 2000/2001: Attacking Poverty* (New York, Oxford University Press, 2000).

[n] International Labour Organization, Report of the Director-General on reducing the decent work deficit — a global challenge, eighty-ninth session of the International Labour Conference, held at Geneva, June 2001.

[o] See Diane Elson and Nilüfer, Çagatay, "Social content of macroeconomic policies", *World Development*, vol. 28, No. 7 (July 2000).

[p] Government of Chile, Ministry of Planning and Cooperation (MIDEPLAN), *El Sistema de Pensiones Administrado por el Sector Privado en Chile: Un Análisis Institucional* (Santiago, 2000).

[q] Silvia Borzutzky, "Privatization: the lesson from the Chilean experience", paper presented at the International Journal of Social Welfare Tenth Anniversary Symposium, Berkeley, California, December 2001.

[r] See Sen, op. cit.

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Annex II

Expenditures in the social sector as a productive factor[a]

1. Social sector expenditures generally refer to spending on education, food programmes, health, housing, labour-related programmes, and social protection (including social insurance, social assistance and other social services). Although conventional policy-making recognizes the importance of such expenditures in creating a favourable social and political environment for economic growth, they have sometimes been viewed as consumption and thus as costs to economic growth. As a result of this perception low priority has been accorded to these items in the government budget in boom times, and during retrenchment social spending has been reduced.

2. From a human development perspective, the expansion of human capabilities is the ultimate goal of all economic and social policies. The pursuit of human development can occur at two levels: as a means to achieve other objectives such as economic growth, and as an end in itself. Both levels are needed and have been extensively discussed in the literature. It is important to integrate social and economic policy instead of maintaining one at the expense of the other because social expenditures have the particularity of directly promoting the development of human capacities while supporting economic growth. Consequently, rather than a "cost", expenditures in the social sector are viewed as a productive factor.

3. Within the framework of conventional economic policy thinking, the human resource approach, which focuses on economic returns to investments in human capital and the beneficial effects of human capital on economic growth, has been the principal basis for justifying expenditures in the social sector. This emphasis on economic returns, however, may be insufficient to appreciate fully the importance of developing human capabilities and public spending on health, education and other social services. Moreover, this approach tends to ascribe a limited role to the State despite examples — from railroads, universities and the aircraft sector to the Internet — of the productive role of the State in creating opportunities, setting standards, and financing and creating markets for the private sector. Thus, the human resource approach needs to be broadened to encompass the view that education and health have value in themselves rather than just as means to higher income.

4. Country experience also shows that investment in the social sector directly contributes to economic growth. Historically, poor countries have overcome the initial disadvantages associated with underdevelopment and have stimulated the development process by investing in the improvement of their human capital. The contribution of such investment to the foundations for future growth is particularly significant in education, including on-the-job training and other labour-related programmes. Health care and nutrition improve the general health status of the population, strengthen learning abilities and raise the productive capacity of the labour force; thus, such expenditures are indeed productive investment.

A. Trends in expenditures in the social sector and conflicting priorities in fiscal policy

5. Programmes and activities in the social sector represent some of the classic examples of public goods with positive externalities.[b] As a result, investment in the social sector is typically financed by public resources through budgetary allocations. In recent years, private-sector and non-governmental organizations have become more active in financing as well as in providing social services, but fiscal policies are still the principal determinants of the total resources devoted to social development.

6. It is widely recognized that social development and poverty reduction imply more than increasing household income. Access to and quality of social services such as health, education, and protection in old age are also important dimensions of social development, and they all depend on fiscal policy through the provision, financing and/or delivery of services. Thus, fiscal policy affects social development through many channels. Consequently, its planning and implementation needs to take into account all these dimensions and complexities and cannot be left only to decision makers in a finance ministry. This is one of the main reasons for focusing on the role of public spending as a productive factor.

7. Having recognized the productive nature of expenditures in the social sector, Governments need to reflect this in the fiscal policy framework. However, overall levels of public social spending as a percentage of GDP have been declining in most parts of the developing world, while they have remained relatively stable in the developed world.

8. Total public expenditures on education as a percentage of GDP declined from 4.2 per cent during the period 1980-84 to 4.0 per cent in 1985-89, and remained at 4.0 per cent during 1990-97.[c] Among the developing countries, the least developed countries experienced a decline from 3.8 per cent in 1980-84 to 3.3 per cent in 1985-89 and then to 3.2 per cent in 1990-97. However, public expenditures on health increased for the developing countries from 2.3 per cent of GDP in 1990-94 to 2.4 per cent in 1995-99, and for the least developed countries from 2.0 per cent to 2.3 per cent during the same time periods.

9. For the economies in transition, public expenditures on education as a percentage of generally declining GDP increased steadily from 4.3 per cent in 1980-84, to 5.1 per cent in 1985-89 and to 5.6 per cent in 1990-97. However, public expenditures on health declined from 4.3 per cent of GDP in 1990-94 to 4.2 per cent of GDP in 1995-99.

10. For the economies of the developed countries, public expenditures on education fell from 5.7 per cent of GDP in 1980-84 to 5.3 per cent in 1985-89, but then rose again to 5.6 per cent during 1990-97. Public expenditures on health for these countries remained steady at 6.1 per cent of GDP for the periods 1990-94 and 1995-97.

11. Some of the sources of pressure on public spending include:

(a) The neoliberal ideology of individualism and small Government;

(b) A global sweep of government sector reforms, which include downsizing, restructuring and transformation;

(c) Large-scale privatization of public programmes, particularly in economies in transition;

(d) An increasing emphasis on targeting at the expense of a universalistic approach to social services;

(e) Economic globalization, which encourages competitiveness and can be used as a justification for cuts in social expenditures;

(f) The programmes of international financial institutions, which encourage cuts in public expenditure in the name of fiscal prudence and reforms of the State.

12. It is impossible to set universal, quantitative target levels for public spending on social services owing to the need to differentiate countries in terms of level of development. Some countries are at a stage where they need to "catch up" and to spend more than other countries at a higher level of social attainment. The appropriate base level of spending can be determined only by studying country experiences. Attention to country-specific conditions notwithstanding, a minimum level of expenditure on social sectors, set internationally, would put pressure on Governments. The establishment of minimum spending levels could play an important role in national "political contracts" for allocating funds for social development within national budgets. Examples can be found of countries that set such goals and "shielded" them in the budgetary process. This approach could be applied to specific sectors, such as by adopting a policy of spending "x per cent over y years on primary education", and would be instrumental in preventing spending levels in critical areas such as primary education or basic health from falling below a certain level.

13. The determination of target levels of public social spending should be linked to the millennium development goals. It should be the responsibility of each country to calculate the cost of achieving these goals at the national level, and to ensure that the required resources are allocated. At a minimum, countries should spend what is needed to achieve universal coverage of basic services. In the least developed countries, other low-income countries and countries with economies in transition, increased budgetary allocations may not have an immediate and tangible impact on the achievement of development goals owing to declines in already meagre fiscal revenues. In such instances, international assistance, including official development assistance (ODA), can play a central role in reaching social objectives.

14. It should also be borne in mind, however, that setting concrete targets on levels of spending on basic social services within overall public spending runs the risk of crowding out spending on other important public investments, such as local infrastructure or agricultural development.[d] To avoid such negative trade-offs, all socially beneficial and economically productive expenditures should be protected. In cases where budgets need to be reduced, the aim should be to identify the non-productive categories (such as military spending or debt payments), which can be reduced with limited direct effect on human development.

15. Many countries, particularly the developing countries and countries with economies in transition, are facing severe problems in financing their public expenditures. In many developing countries, external debt servicing is depleting the resources available for social development. While several multilateral and bilateral debt relief initiatives, such as the Heavily Indebted Poor Countries (HIPC) Debt Initiative, have been carried out in recent years, these have not effectively reduced

debt service costs for many countries, and they do not apply to middle-income countries, which are also severely affected by debt servicing.

16. Even if Governments identified spending targets for various social sector activities, the actual realization of fiscal commitment could still be problematic as tax revenues are also declining in many countries. Consequently, several countries have not been able to meet their own budgetary targets. This implementation deficit — the failure to meet spending levels in the social sector despite stated intentions — can also be attributed in part to conflicting priorities. In the national budget prioritization process, social development goals are often perceived to be "soft objectives" compared to macroeconomic targets. A mechanism is needed for countries to share experiences in balancing these priorities.

17. One way to resolve the conflict among various policy priorities is to view social spending as a process, not only as a product, and hence great efforts should be made to design and implement pluriannual budgets. This would ensure consistency and continuity in the planning of public expenditures, and at the same time shield strategic aspects of social spending from economic cycles and dislocations. Child health and education, for instance, could be defined as strategic sectors and protected from financial ministry erosion.

18. Within the social sector, there is the question of targeted versus universal social programmes. In principle, universal access to health and education is desirable and obstacles to achieving this goal should be removed. Targeting can be effective in certain instances, especially when carried out within a broader framework of achieving universal access to social services. Nevertheless, identifying certain groups for targeted programmes can have adverse effects. These might include social stigmatization, mistargeting and lower quality services as well as a lack of political support. Monitoring and documenting the benefits to the population as a whole of the universal programmes should be a focus of action. If services are not broad-based, then improving the delivery of the universal programme should be the goal. If this requires special assistance for some groups (for example, scholarships for girls in countries/sub-national regions where female enrolment is very low), rendering this assistance should be seen as a complement to a universalistic approach, rather than a substitute or a handout to the targeted groups.

19. The goal of achieving universality in social services does not always override the need for targeted programmes under special circumstances. In countries with limited public resources available for social services, as in the case of many least developed countries and transition economies, the implementation of universal measures would have little or no impact on improving the well-being of the population. Under these circumstances, targeted measures for the most vulnerable groups are crucial. Experience in some middle-income developing countries also shows that universal programmes have actually aggravated inequities, as the better-off have the information and resources to benefit from the programmes more than the poor.

20. The increasing application of user fees and cost recovery in many countries has diminished the people's confidence in the public provision of social services. The introduction of user fees has had particularly negative effects on the poor. Health care, for example, is a fundamental contributor to human development and the introduction of cost recovery in this area has had broad negative social

implications for households. In many countries, the privatization of rural health care has caused a deterioration in rural health-care access and has led to subsequent health problems in rural areas. These developments show that in instances where countries have implemented comprehensive cost-recovery measures, targeted social services should be provided for vulnerable groups. As fundamental human rights, such basic social services as minimum health provision and basic education, as well as services for people with disabilities, should not be subject to cost recovery.

B. The roles of the State, the private sector and non-governmental organizations, and the need for constructive partnership in human development

21. Achieving a proper balance between economic and social objectives is at the core of a human-centred development strategy. Experiences have shown that social policy should not be an adjunct to economic policy and social development cannot simply be assumed as a natural outcome of growth. A complex set of factors impinges on social outcomes and all of them must be addressed simultaneously. In order to achieve a proper balance between economic and social objectives, different values need to be combined, including the values of growth and redistribution and those of efficiency and equity, as well as the interests of capital and the interests of labour. Recent trends in structural reform and social development highlight the need to re-examine the roles of the State, the private sector and non-governmental organizations (NGOs) in the social sector and to advance the concept of partnerships in promoting the goal of human development.

22. It is a primary responsibility of the State to ensure the provision of universal basic education and primary health care. States have already committed themselves to this principle through various international norms and instruments. Avenues for augmenting the resource base in the context of these fundamental responsibilities and obligations must be explored. While recognizing that many States, particularly in developing countries, face tremendous resource constraints and conflicting demands on scarce resources, Governments nevertheless are expected to implement commitments made at the World Summit for Social Development in 1995 as well as at the twenty-fourth special session of the General Assembly held at Geneva from 26 June to 1 July 2000.[c]

23. International support is essential. At the same time, it is necessary to ensure that international donors are sensitive to local needs, culture and circumstances, aligning aid as far as possible with national development goals. Accountability for local communities, NGOs and Governments receiving aid should also be strengthened. In this regard, the World Bank Poverty Reduction Strategy Paper process should play a key part in promoting community involvement in social development.

24. As a component of the shift in the development paradigm towards greater reliance on market forces, the role of the private sector and NGOs has increased in the social sector. Many countries, developing and developed alike, have privatized segments of social services. As the domain of the public sector shrank with efforts to achieve smaller Government, more social services were left to the private sector or NGOs to fill in the gaps left by the retreating Government.

25. One form of private sector participation is through philanthropy. Private donations should be promoted to tap resources for social development and to promote altruism. Tax and other incentives should be provided for companies, foundations and individual donors contributing to social development objectives. It must be recognized, however, that philanthropy, in the light of its limitations with respect to service reliability, consistency, evenness of distribution and balance in its attention to chosen causes, cannot replace State social funding. One point of special importance in transitional economies is to promote socially responsible business practices, as well as to enhance partnerships between the State and the private sector in providing social services.

26. The private sector also participates by providing some social services. Many social services that are considered basic for social and human capital development can be provided at a lower cost and/or more effectively by the private sector, especially at the local level. NGOs can also be very useful in the identification of critical situations where social interventions are needed and in facilitating the provision of goods and services.

27. Participation of the private sector and non-governmental organizations in the provision of social services and development of human capital can represent a valuable contribution to modern social policy. Moreover, participation is a value in itself and should be encouraged. In order to effectively achieve overall human development objectives, however, these actors have to be integrated into a more systematic framework and a long-term strategy that only State institutions and agencies can achieve and sustain. The stewardship role of the State in social development should be strengthened rather than diminished in the era of more active participation by the private sector and civil society. Building sound partnerships between the State, civil society and market institutions should be encouraged. A shared vision of society-wide goals should be the basis for effective partnerships, mutual responsibility and commitment. What is required is an active and permanent involvement by all stakeholders, not only in the allocation of public resources, financial and other, but also in the design of public policies and the implementation of investment and expenditure projects.

28. Related to NGO participation in social development is gender mainstreaming, a crucial element in social expenditure policy. While mainstreaming efforts are being made everywhere, women are more likely to be present in many NGOs as opposed to governmental agencies, where gender is still a barrier. Thus, for at least the near future, it is through NGOs that women's contributions can be more effectively factored into policy design, implementation and financing of the social sectors.

29. NGOs have unequal strength in human resources, national/local roots and financial capacity. While some are well provided for, most NGOs, particularly those operating in developing countries and countries with economies in transition, are in need of financial and institutional support in order to better utilize their assets and serve as effective partners to the State. Furthermore, many organizations face some of the same challenges as States, such as generating and managing resources with competence, integrity and accountability to foster and sustain social progress. Thus, NGOs and States can mutually provide needed support and checks and balances for the benefit of society at large, people in need and in particular the very poor.

30. The main challenge is the integration of resources, which may take place as a result of confrontation and/or cooperation among partners of social development. In order to promote cooperation, decentralization and political democracy, NGOs have to develop new and more refined ways to relate to the poor and with the State. This is not an easy task, after years of mistrust and separation between Governments and NGOs. In some situations, NGOs have become instrumental for social and political mobilization and even transformed themselves into political parties without realizing it.

31. It is important to maintain an objective and critical perspective on the nature of the collaboration with NGOs. Promoting NGO participation in budget matters should not be synonymous with a hidden agenda or deliberate intent to weaken the State. A philosophy and policy of constructive complementarity and partnership between NGOs and the State must be promoted in order to ensure that new and additional sources of productive investment in the social sector are identified.

32. To give full meaning to the collaboration between NGOs and the State, the relevant ministries (e.g., education, health and housing) could include in their annual budgets references to the NGOs that are legally or administratively within their respective sectors. Even a symbolic allocation of funds can constitute an indicator of good will and a solid ground for cooperation between the State and the NGOs. Financial resources from specific State-controlled income sources can be allocated to the NGOs, as is the case in Costa Rica.

C. The importance of good governance

33. In addition to resource mobilization, governance is crucial for ensuring that expenditures in the social sector are indeed productive and for meeting the goals of social development. In many instances, Governments are unable to meet the desired levels of public expenditure in the social sector or make satisfactory progress in achieving social development outcomes owing to problems of governance.

34. The providers of such social services as health and education, including doctors and teachers, influence the quality and delivery of these services, which in turn impacts Governments' ability to achieve social objectives. Efforts to reform and improve services must take into account the institutional factor, such as the role and interests of teachers in the delivery of basic education in poor areas. Similar examples can be found in the health sector. In some instances, the providers of services may have interests and perspectives which differ from the users' needs as well as from the common good. Transparency and accountability in the spending and delivery of social services is essential to ensure that investments in these sectors contribute effectively to meeting objectives.

35. It is also of critical importance to ensure good governance in the budget allocation process. In many countries, examples can be found of special interest groups — for example, the providers of certain social services — trying unduly to influence budgetary allocations. The decision-making process must be democratic, open and transparent, taking into account different interests. Civil and political liberties must be safeguarded, and the full participation of civil society on an equal and fair basis ensured.

36. Another aspect of governance has to do with communications. The media must be involved in the discussions and assessments that lead to a determined social development strategy. The creation of an acute social awareness, especially when poverty appears as massive and extreme, is of great importance, but so far it has not been assumed as a permanent job by the press or by social organizations. Mobilization of the private sector is crucial to give social spending a permanent and productive horizon. Without information and communication, it is not possible to mobilize the active contribution of the public.

37. In sum, good governance not only helps the mobilization of public and private resources for social development, it is also essential in ensuring that such expenditures contribute productively to the overall human development process.

D. Lessons from Costa Rica

38. In Costa Rica, the national social fund, which is self-sustainable, generates income by collecting 5 per cent of the income tax and 20 per cent of the sales tax in Costa Rica. Popular support for these collections, which during the year 2000 amounted to 200 million United States dollars (US$), is ensured because social security coverage is close to 95 per cent. Social policy in Costa Rica is based on three fundamental principles: (a) producing wealth through an active economy; (b) providing universal programmes in the social sectors and making them available for all groups; and (c) implementing focused strategies for the most vulnerable.

39. Some of the lessons learned from the case of Costa Rica include:

(a) Education must assume a strategic role as an instrument of poverty reduction;

(b) Operation control systems need to be developed in order to monitor closely unit costs and productivity;

(c) Community participation in control and evaluation of programmes should be enhanced;

(d) Social investments should be distributed with demographic equity;

(e) Targeting systems reduce the incidence of abuse of social services. In some countries, the middle class abuses the system by claiming benefits aimed at the poor;

(f) Low-income groups have a limited capacity to participate and organize a meaningful contribution to social development. In these cases, the State should play an active role in mobilizing the poor to articulate their needs and interests;

(g) An integrated, coordinated social strategy requires in-depth information and knowledge of the situation of the population.

Notes

[a] Final report of the expert group meeting on "Expenditures in the social sector as a productive factor", San José, 11-13 June 2001

[b] A public good has the characteristic that one consumer's use of it does not exclude others from its consumption (e.g., a lecture) or excluding someone from its benefits (e.g., clean air). Externalities are unintended effects (positive or negative) of some activities. For example, education for women also improves infant survival and reduces fertility; therefore, it has positive externalities.

[c] Data in paras. 8-10 are calculations from the *World Development Indicators 2001* CD-ROM (Washington, D.C., World Bank, 2001).

[d] An instrument promoted since the World Summit for Social Development in 1995 to achieve these goals is the 20/20 Initiative. It recommends an indicative average allocation of 20 per cent of the national budget and 20 per cent of ODA to basic social services (basic education, basic health, rural and peri-urban water and sanitation, reproductive health and nutrition). See *Implementing the 20/20 Initiative: Achieving Universal Access to Basic Social Services* (New York, UNDP, UNESCO,UNFPA, UNICEF, WHO and the World Bank, June 1998).

[e] In 1997 a meeting was held in Addis Ababa under the auspices of the Economic Commission for Africa to review the experience on cost sharing. Among the 17 sub-Saharan African countries, NGOs, bilateral donors and multilateral agencies, an agreement was reached on the need to eliminate user charges and fees. See Addis Ababa consensus on principles of cost sharing in education and health (New York, Economic Commission for Africa, United Nations Children's Fund and World Bank, June 1998).

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Annex III

Social assessment as a policy tool*

A. Concept and uses of social assessment

1. Social assessment includes a wide range of different activities that distinguish it from other types of analysis. The first of these is methodological: social assessments use sets of methods that rely heavily on the participation of the intended beneficiaries. The second refers to its objectives: social assessments seek to help expand participation and to refine and improve the decision-making and the policy processes by broadening the range of information available to policy makers, both in terms of the content of the information and the variety of informants, and by introducing qualitative measures that encourage a broader, richer and more nuanced analysis of policy options and their impacts. At the same time as social assessment intends to obtain information useful for the policy-making process, it tries to create better skills and knowledge among the participants.

2. Regardless of the level at which it is carried out or the people involved, social assessment can be said to combine at least three aspects:

(a) An assessment of impact;

(b) The voluntary participation of people;

(c) Policy relevance, i.e., an intention to influence policy-making.

3. Through these objectives, social assessment can contribute a social perspective to policies and programmes that previously had exclusively economic, financial or environmental concerns, and it can promote the introduction of such social values as stressing inclusion and reaching out to vulnerable groups and those overlooked in policy-making. In particular, social assessment can provide support for the following activities:

(a) Analyse the impact and consequences of certain policies for specific social groups, particularly the most vulnerable ones. By collecting the "voices" of all the people (stakeholders) involved or affected by a particular policy, a social assessment can determine both the positive and potentially negative outcomes of the policy so that it can be improved. In this sense, social assessment is particularly useful for analysing the impact of sectoral policies, including such areas as infrastructure development, industrial policy, rural development policy, education policy and employment policy. The sectoral policy level is one in which social and economic concerns are often interconnected; in these cases the role of social assessment becomes extremely valuable. Social assessment can also help to promote better understanding among people about issues that affect them, such as those related to macroeconomic policies, including privatization, cuts in subsidies, exchange rates, interest rates and the functioning of financial markets. Social assessment can also provide information about the impact of those policies on various groups of people;

* Summary of the report of the expert group meeting on "Social assessment as a policy tool", held in Sofia, October 30-1 November 2001. Full text available at http://www.un.org/esa/socdev/csd/2002.htm. Path: Social assessment as a policy tool.

(b) Improve the implementation of existing policies, by identifying stakeholders, their interests and the potential conflicts among those interests, and by providing feedback to policy makers, considering how to manage any existing conflicts, suggesting what needs to be changed, and recommending who will make the change. Even if social assessments do not guarantee that policy makers will always reach the best decisions, the assessments may at least succeed in helping them to avoid crucial mistakes. Through recognition of the diverging interests of the different stakeholders, a social assessment can help to build understanding and consensus, which ultimately can promote good governance and democracy;

(c) Reduce potential risks in policy-making by predicting the likely impact of a policy before it is actually implemented, pointing out who might benefit and who might suffer from its implementation, and what negative consequences might result that should be mitigated. It can also offer different alternatives for reducing the social costs of policies and projects, with particular attention to the impacts on specific social groups. Policies are likely to have unforeseen consequences, and through social assessment it is possible to consider what these might be so that policy makers can be prepared to respond, should they occur. Using this method to predict the impacts of policies will also help to strengthen government institutions and the initiatives they implement;

(d) Provide a means for integrating the activities of the different political actors, which will in turn contribute to better achievement of policy objectives. In most countries, policies and programmes to alleviate poverty are implemented by a diversity of actors: different ministries, non-governmental and community-based organizations, intergovernmental bodies and international agencies. Social and economic issues are usually addressed on different agendas; economic/finance ministries and social/welfare ministries are compartmentalized and tend to work on the basis of sectoral issues. If greater interaction and the necessary linkages could be created, economic decision makers would more often consider the social implications and outcomes of the policies they develop. Social assessment can be a tool for bringing ministries together to develop more cohesive policies, both within the social sector and between the social and economic sectors, and can be an important instrument for analysis of the intersection between economic policies and social problems. The knowledge and insights gained through social assessments can also be used to improve economic policy-making;

(e) Harmonize the activities between governmental institutions and strengthen the capacities of Governments to implement appropriate policies. Governments may need assistance to restore the skills and methodology for carrying out substantive research and analysis, to restore the coherence between the State and public policy, to reinforce institutional capacity lost during the last decades and to construct overall development policies that integrate social and economic aspects. Social assessments within institutions can identify institutional requirements and enhance the ability of those institutions to make better decisions on a daily basis;

(f) Understand local realities in depth. Different countries or even different places within countries will require different policy strategies, based on the conditions in the area of intervention. Every decision in policy-making needs to be tailored to actual situations;

(g) Increase people's participation in two different ways: participation as a means, which aims to improve the implementation of policy; and participation as a

goal, which aims to expand the decision-making process. Social assessments can facilitate inclusion in the entire process of policy-making and implementation and, as such, strengthen democracy. Social assessment can give democracy a larger reach by promoting a new culture of participation and openness in governance;

(h) Build social capital by stimulating stakeholders to articulate their conditions and needs and encouraging them to organize to meet those needs. By providing information to people, increasing their awareness and ability to encourage government authorities to develop appropriate policies, promoting respect for the points of view of others and facilitating change through a process of participation, social assessments also help to promote citizenship.

4. In the development of policies to eradicate poverty, social assessment can:

(a) Help the poor to articulate their conditions and their needs, encouraging them to organize to meet those needs and providing them greater information about and contacts with the larger society. It is rare for the really poor — the poorest of the poor — to participate in any social exercise, even when assessors want them to. Poverty is often the result of a process of exclusion that takes political, economic, social and personal forms. Nonetheless, extra effort needs to be made to reach the poor and overcome any constraints on their participation;

(b) Build up community-driven development by seeking the insights of the people directly concerned and promoting their participation in efforts to overcome their problems;

(c) Recognize that people living in poverty do not represent a block; disaggregate information according to income, levels of vulnerability, gender, age, location, disability and dozens of other factors, which will help policy makers to find out the different interests and needs that the poor might have;

(d) Ensure that anti-poverty policies respond to a diversity of situations (social, political and institutional problems) in a much more precise way, making them more effective. There are many different needs that must be addressed. Social assessment gives a more detailed, microlevel picture about the impact of government programmes on the ground.

5. If, through social assessment pro-poor policies, programmes and activities can be made more demand-driven, their chances of success will be much higher.

6. Social assessment can also be applied in the private sector. There, it can be used to examine the social impact of business activities and encourage inclusion of social considerations in the decision-making of corporations and private investors, as well as to develop "social criteria" that encourage companies to be better corporate citizens.

B. Turning research results into policy-making

7. A great deal of work has been done in the field of social assessment. Yet, despite all the research, very little learning seems to be achieved, and the impact on policy is minimal. How can the outcomes of social assessments be used to influence policy-making to a larger extent?

8. In the first instance, it is important to consider the national political context in which social assessments are carried out and to which they may contribute. Social assessments are most effective when institutions for the free exchange of information function well. Also, the national and international political contexts can often guide or constrain governmental behaviour: sometimes particular interests or pressure groups try to control the political or policy-making process; at other times Governments are constrained by the demands of the international environment. These opportunities and constraints might affect the extent to which social assessment can influence the policy-making process.

9. Receptivity to social assessment methods is often lacking. Participatory methods are not valued as much as the quantitative ones, as the former are sometimes considered to be too subjective to be reliable. Nevertheless, a whole range of different methods exists for obtaining good information. It is important to keep in mind that the most appropriate methods have to be chosen for every specific situation, scale and level of policy, in order to carry out a successful social assessment that answers the questions it was designed for. Some forms of gathering information may be more complex and time consuming, although they may provide more detailed information. Many household surveys, for example, take a long time to complete and are not useful when policy makers have to make quick choices. Social assessments, on the other hand, can provide quick and useful observations although they might provide less detailed information. A combination of different tools and techniques can help to provide timely and useful information to policy makers.

10. It is important, therefore, to consider carefully when and how to utilize social assessment for different kinds of policies, programmes or projects: there will be times and situations when social assessment will be useful and indispensable; there will be other instances in which social assessment will be useless; and there will be cases in which social assessment will be impossible.

11. For social assessments to be useful to government policy makers, consideration needs to be given to how the information obtained is made available. Policy makers do not want raw information but an understanding of information in ways that are relevant to policy-making. Social assessments can provide an interpretation of the available information for a better understanding of the society.

12. Social assessments may be most useful at the local or project level: discussions are easier to organize and issues and problems are most clearly defined. Local authorities can also benefit from social assessments because they often need the information that assessments provide; on the other hand they might be reluctant to carry them out because assessments can also expose problems and weaknesses, or because authorities may fear that the process will create expectations that they cannot fulfil.

13. More awareness about the usefulness of social assessments might also encourage policy makers to utilize them more often. Do policy makers take social assessments seriously and do they value the results that the research produces? Examples of social assessment's contribution to improved efficiency, better coordination of activities and programme implementation can be presented to Governments, together with examples of the ways in which social assessment can improve policy and the delivery of services, strengthen participation and governance and, consequently, deliver votes.

14. Willingness to pay for the activity provides an excellent indicator of commitment to social assessment and acceptance of its outcomes as inputs to policy reform. If a Government or local authority has no interest in financing social assessments, or in creating the capacity to undertake them, it is unlikely that it will incorporate the results of social assessments in future policy-making. Many current social assessment activities are driven by donors or international agencies, and in some cases may even be viewed by Governments as a new form of conditionality for receiving assistance. It is important to present social assessment as a useful tool for Governments themselves to improve their policy-making, and not just as a requirement they have to submit to.

15. Promoting social assessments will likely require having an interested person or institution within the Government — champion of the social assessment — to sponsor and sustain the research and encourage the people who will be responsible for implementing the policy changes. It is also important to identify the people or institutions in Government who need to be convinced of the importance of social assessment as a tool to achieve higher efficiency in the long term, including better administration of public funds.

16. In addition to having a champion of social assessment within the Government, it is important to promote many forms of "voice", which can be described as champions outside the Government who will press for its adoption. The importance of advocacy groups in achieving social goals is well known, and advocacy for adopting social assessment, valuing the research carried out and translating the research results into policy recommendations is a very important activity. The media can provide useful information about the benefits of participatory approaches and can promote social goals and pro-poor strategies. In addition to non-governmental organizations, other potential institutions could champion social assessment, such as the special commissions that exist in some countries. Consideration should be given to identifying other potential allies, both within and outside Government, including various ministries, the judiciary, the legislature, special commissions and other autonomous bodies.

17. Policy makers need to get involved in the design, agenda-setting, organization and implementation of the social assessment as much as any of the other stakeholders. Their views, needs and concerns need to be incorporated into the research to be undertaken; this will also promote the likelihood that the assessment results are incorporated into future policy-making. However, it is important to keep a balance with regard to government involvement in social assessment in order to ensure ownership and the independence of the researchers in doing their work.

18. The current structures of most Governments do not establish a place — an agency, unit or office — to analyse the overall situation of the country and investigate specific priority issues. The importance of this function should not be understated, because it can provide necessary information and insights to give overall coherence to policy.

19. In addition, in order to facilitate the introduction of social assessments, it is necessary to foster the development of a social policy community — a community of experts in social policy and issues. This can be achieved through greater governmental recognition and support for the work carried out by social policy professionals, by expanded public discussion and debate on major issues of social policy and by greater investment in the social sciences and in social scientists to do

social assessments. It is important to start training programmes and prepare curricula on carrying out social assessments and on providing policy advice in countries; academic institutions should be encouraged to participate in the development of such activities. Finally, there is a need to develop a methodology of policy advice: simply being a good researcher and implementer of social assessment is not the same as being a good policy adviser.

20. Achieving consensus on priority social concerns at the national level is also an important step in the achievement of a larger integration between economic and social policies, which will require concerted efforts from sociologists and social policy experts. Social assessment can help in this process. One of the problems of social policy is that social concerns are often difficult, if not impossible, to quantify, and this lack of quantification might make them seem less tangible. Social assessment can help to find ways to express social concerns in ways that make sense to policy makers.

21. Ex post social impact analyses of existing policies can help to build a sense of legitimacy for social assessment exercises, because they provide information useful to policy makers. Yet it should also be recognized that ex post social assessments contain an inherently critical approach — showing where Governments have gone wrong — that often collides with the political sensitivities of authorities. Social assessments should not be seen simply as exercises in criticizing politicians and policy makers. They can help to illustrate the likely outcome of policies before they are implemented, so that problems can be identified in advance and addressed as they arise.

22. How might Governments and citizens be motivated to pursue a better integration of social and economic policy? Two potential motives are identified below:

(a) Motives for Governments to promote integrated policies:

(i) Arguments based on moral values, including calls for increased social justice and equity;

(ii) Political pressure by different interest groups, including NGOs;

(iii) The empirical evidence that integrated policies have a positive impact: Governments should understand that the integration of social and economic policy is efficient and profitable, and increases the effectiveness of policies in reaching desired objectives.

(b) Motives for citizens to participate:

(i) participation fulfils the needs for social justice, equity and humanitarian values;

(ii) Political activism: the reason that many non-governmental organizations exist and the need to defend people's interests;

(iii) The experience of integration: if people see some benefits they will be further motivated to participate.

23. In addition, the following recommendations should be considered for integrating social and economic policies:

(a) It is important to develop holistic, pro-poor policies that do not compartmentalize economic and social concerns. It should be possible to adopt an approach that focuses on problem-solving and then to consider both the social and the economic aspects of the problem in order to devise policies;

(b) Policies should work in favour of the community at large, not just the business community. All policies should be infused with considerations of how not to penalize the poor. This may be achieved by widening the decision-making process. By opening it up to more people and giving everyone the right to take part, it will make them feel that their voice counts;

(c) There is a need to promote gender analysis, primarily because gender concerns are fundamental in defining social concerns, but also because the experience of mainstreaming gender in development policies may provide an example of ways to mainstream social concerns;

(d) It is important to create coalitions of interested individuals and groups to promote policy integration. It should be possible to identify, in each country, a combination of interests of active Government, active entrepreneurs and an active population. Social assessment helps to create an active population;

(e) More attention should be given to the role of authorities and consultations among actors at the local level, which may be the ideal place to integrate economic and social considerations. It is at the local level that the greatest number of opportunities exist for dialogue and effective participation. There is a pressing need to strengthen local organizations that can examine the integration of social and economic policies at the community level. Social assessment contributes to the development of an institutional network for this kind of dialogue;

(f) National level action is also important. Economic policies at the national level provide a general design, and it is usually difficult to introduce changes at the local level without reference to national policies;

(g) Social assessments could be utilized in the private sector to address corporate social responsibility. Information about the activities of corporations could be provided to a broader constituency. Social assessments would focus on a stakeholder analysis of corporations, in an effort to identify the interests of all the people who are affected by corporate behaviour and not just the interests of shareholders.

24. Social assessment is not something new. It is happening already in countries all over the world. The social perspective it introduces can provide information essential to policy-making and increase understanding of actual conditions in a country. It encourages participation and promotes the active involvement of individuals and groups that have often been overlooked. It encourages the development of social capital, as people begin to organize and develop essential networks to promote their interests and their well-being. Social assessment is a tool for better decision-making, not just for improving policies and programmes, but also for improving governance. It may not always provide the right answer to questions of policy, but it is essential for avoiding crucial mistakes.

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Annex IV

Multilateral efforts by the United Nations system[a]

A. United Nations Conference on Trade and Development

1. The United Nations Conference on Trade and Development (UNCTAD) advocates economic and social policies for developing countries that enhance the national and international environment for their development. Employment, wages and social conditions in developing countries, including those with exemplary records of growth and macroeconomic stability, have become vulnerable in recent years to financial shocks. As in other such crises in emerging markets, these shocks cause deterioration in social conditions, manifested by rising unemployment, falling wages and increasing poverty. Given the frequency of such crises and their potential damage, effective action requires reforms to the international financial system, including a temporary halt to debt payments during crisis situations to prevent asset seizures by creditors and increases in interest rates. Moreover, policy advice to crisis-affected countries must pay particular attention to any adverse consequences in the social sector such as labour market conditions and poverty levels.

2. Poverty and social deprivation continue to take their greatest toll in Africa. However, if the targets set by the international community are to be realized, two changes are required. First, a realistic assessment is needed of the effects of macroeconomic and structural adjustment on growth, poverty, expenditures in the social sectors and income distribution. Second, meeting targets should not mean redirecting public spending and aid flows towards areas that are expected to yield quick results in the alleviation of poverty by raising consumption. Poverty reduction programmes need to be associated with structural adjustment and macroeconomic policies conducive to more productive investment and better income distribution. This will require additional resources from the international community to support a faster growth rate.

B. World Food Programme

3. The World Food Programme mandate to reduce hunger has not only a humanitarian and social justification, but also a strong economic rationale. The economic cost of hunger and malnutrition, as reflected in lost productivity, illness and death, is extremely high. The World Food Programme seeks to ensure that its different humanitarian and development interventions include activities that contribute to poverty alleviation by eliminating or at least mitigating adverse social impacts while at the same time enhancing education, inclusion of the marginalized and empowerment of communities and women.

4. Given the importance of human capital as a critical determinant of economic growth and development, the World Food Programme encourages, in its programme priorities, an increased focus on social sectors such as education, health and nutrition. Support to education and health programmes is widely recognized as a highly productive social investment that contributes to the formation of a healthier and more educated population that can render productive labour, economic growth, and ultimately, a better and more equal society.

5. However, social sector expenditures are broader than education and health alone and include other types of interventions such as food and income-support programmes. Often the positive impact of investment in these sectors may not be immediate; nevertheless, they are recognized as socially valuable and economically productive investments in the long term. Social safety nets that supply food provide a good illustration of this point. Among other goals, these programmes protect individuals against risk or deprivation and hunger. Social safety net programmes often represent a long-term commitment, not only to help the less fortunate and most vulnerable, but also to ensure development of the human potential of everyone to its highest. Seen in a broader context, investing in social protection is a productive investment, benefiting not only the immediate recipients but also society as a whole.

6. Resources have to be allocated to activities that promote economic growth but in conjunction with measures that provide direct assistance to the poorest, particularly those suffering from chronic hunger. There is an acute need to protect the poor and chronically hungry by reinforcing social assistance programmes in order to make them cost-effective, financially sustainable and effectively targeted to the most vulnerable. An integrated and balanced approach of economic and social policies is required to address issues of economic development, poverty eradication and hunger simultaneously. An effective strategy to tackle the problem of poverty should address both productive and human resources and cover enhanced health care, nutrition, education, women and community empowerment.

C. United Nations Population Fund

7. The United Nations Population Fund (UNFPA) recognizes widespread poverty as the major challenge to economic and social development. Today 1.2 billion people live in absolute poverty — a situation in which too many human beings, especially women and children, cannot yet exercise basic human rights. The world must also face the challenge of future population growth and its possible implications for world poverty. The current world population of 6.1 billion will increase by an additional 2 billion in the next 25 years, with nine of every 10 persons living in a developing country.

8. Demographic changes, the reproductive and sexual health situation of women, men and youth, including the HIV/AIDS pandemic, and the interrelationship between population, economics and social development are among the factors determining the ability of countries and individuals to eradicate poverty, achieve the millennium declaration goals and achieve growth and development. In these efforts, the poor themselves must become strategic empowered partners and should be engaged in the design, implementation and evaluation of relevant programmes.

9. Measures that need to be taken in the area of demographics, population, and reproductive and sexual health so as to maximize the benefits of social programmes and expenditures on both individual and social well-being as well as economic productivity and long-term economic growth include:

(a) Providing universal access for women, men and youth to reproductive health (including family planning) information, education, counselling and quality services, with special attention to reducing maternal mortality and preventing HIV/AIDS;

(b) Supporting programmes that build and strengthen national capacity to conduct data collection, analyse population and development linkages and undertake integrated development planning, including addressing interrelations between population dynamics and sustainable development;

(c) Promoting gender equality and the empowerment of women, particularly in ensuring equal access to education for girls and boys;

(d) Mobilizing resources for development, both national allocations and international assistance. Resources must be channelled towards education and health services, including reproductive health, especially family planning, safe motherhood, and HIV/AIDS education and prevention. The discussions regarding possible methods to mobilize additional resources for development also need to be continued.

D. International Labour Organization

10. It is the view of the International Labour Organization (ILO) that the traditional dichotomy between economic and social policies has often led to suboptimal policy choices. Therefore, at the international level, within the multilateral system, an integrated approach to social and economic policy needs to permeate the process of designing, as well as monitoring and evaluating, the policies and institutions that govern the process of globalization. In particular, the social impact of policies and institutional arrangements need to be carefully assessed and fed back to influence decisions.[b]

11. At the national level, the preconditions for an integrated approach to economic and social policies need to be strengthened. A basic requirement is to attain greater democracy in the political process. This provides the ultimate guarantee that integrated policies for achieving balanced economic and social development will be adopted and implemented. In addition to a well-functioning democratic political process, an efficient public administration is needed to formulate and implement economic and social policies. Of particular importance for the integration of economic policies is the strengthening of the capacity of ministries with a social mandate so that they can interact with finance and economic ministries on a coequal basis.

12. In addition, research needs to be undertaken to develop concepts and policy tools necessary for demonstrating the feasibility of applying integrated approaches. Capturing the economic benefits of social policies, over and above their obvious social benefits, would contribute greatly to successful advocacy to upgrade the status of social policies and redress the under-allocation of resources to these policies. Demonstrating the economic benefits of social policies in terms of the improvements in human capabilities, productivity, social cohesion, attitudes to change and resource allocation that they would bring about would be a powerful tool for advocacy.

13. A parallel task is to promote the incorporation of ex ante assessments of the social impact of economic policies, especially in the context of major structural reforms and the handling of economic crises. Ideally, this should become a routine feature of policy-making, with significant weight being given to social impact in the design and choice of policies.

E. Food and Agriculture Organization of the United Nations

14. The Food and Agriculture Organization of the United Nations (FAO), in line with its mandate, assists Member States in designing and implementing policies and strategies to promote food security. Recent FAO studies and normative work have shown the following:

(a) **Undernourishment lowers macroeconomic performance**. There is evidence that improved nutrition affects economic growth directly through its impact on labour productivity and indirectly through improvements in life expectancy. The results of a recent FAO study suggest that raising the per capita dietary energy supply (DES) to 2,770 kilocalories (kcal) per day in those countries where it is below that level would increase the rate of per capita gross domestic product growth by between 0.34 and 1.48 percentage points per year;

(b) **Undernourishment causes poverty, leads to poor health status and lowers individual productivity**. Undernourishment is the prime cause of energy deficiency in humans. Inadequate consumption of protein and energy as well as deficiencies in key micronutrients, such as iodine, vitamin A and iron, are key factors in the morbidity and mortality of children and adults. Poor nutritional status compromises the health status of rural producers, resulting in loss of output and income. Hunger also causes children to do poorly at school, thereby damaging their future economic prospects.

15. To strengthen the analysis of the linkages and causal relations between economic growth and poverty reduction and the integration of social and economic policy, the Food and Agriculture Organization of the United Nations would recommend the following:

(a) **Highlight the intersectoral linkages**. For example, while changes in the agricultural economy and rural-urban migration may increase income opportunities and earnings, they may also have negative effects on social capital and social integration;

(b) **Recognize the trade-offs and prioritize among policy alternatives**. Given the budget constraints and multiple policy goals, such as growth rate targets, universal primary education, health targets, food security, empowerment and social security and stability, policy alternatives must be prioritized. The rationale underpinning choices needs to be made explicit, and the trade-offs and spill-over effects need to be acknowledged in terms of multidimensional outcomes and targeted categories of people and sectors;

(c) **Develop and adopt indicators** that look beyond the economic and financial sustainability of policies, investments or projects and put more emphasis on social assessments as well as on quantitative and qualitative social information.

F. United Nations Educational, Scientific and Cultural Organization

16. The United Nations Educational, Scientific and Cultural Organization (UNESCO) advocates the moral as well as the political imperative of enhancing social and economic progress to benefit all countries and people. To this end, economic growth has to be combined with social justice. This calls for the integration of social and economic policies.

17. In this regard, the promotion of the right to development, taking fully into account human rights-based approaches and reflecting economic, social and cultural rights as well as civil and political rights, is crucially important. The International Covenant on Economic, Social and Cultural Rights should be universally ratified.

18. Among these rights, the right to education also means a right to social and economic participation for all, and investment in education is both socially and economically productive. While education is not a guarantee of gainful employment for an individual, it is a necessary precondition for social integration. Effective education for all involves the identification of the specific needs of the most vulnerable and those whose social and political rights have been denied or severely limited. The education component of an integrated economic and social policy involves identification of the autonomous learning needs of the most vulnerable populations, such as the poor and women in poverty, in both developed and developing countries.

19. In the promotion of social development, the delivery of social services should be based upon a holistic approach. In addition, social scientists should take part in policy formulation and evaluation and provide assessments and analysis of policies and programmes that have succeeded or failed and of the circumstances and processes underlying these successes or failures.

G. World Health Organization

20. The World Health Organization (WHO) is currently investigating the growing body of evidence indicating the link between health and national macroeconomic performance. In December 2001, the World Health Organization Commission on Macroeconomics and Health will present its findings and recommendations in this regard.

21. Spending on health must be viewed as a productive investment, rather than simply expenditure on consumption. It is apparent that the health-to-productivity linkage operates through several closely related mechanisms: higher labour productivity among healthier workers; higher rates of investment and savings among people who live longer; higher educational attainment by healthy children; greater enterprise productivity; and demographic changes, in which improvements in health lead to lower rates of fertility and mortality in the population.

22. Better health alone is necessary but not sufficient to produce high economic growth rates. Increasingly, it appears that its impact depends on the economic and political environment in which health improvements take place. Improving health and wealth simultaneously requires a mix of complementary economic, social, and health policies.

23. The twenty-fourth special session of the General Assembly, held at Geneva in June 2000 in follow-up to the World Summit for Social Development, made a significant contribution to mainstreaming health in the broader social and economic development agenda and endorsed a number of strategies and new initiatives. A particular obstacle in this regard is the traditional perspective of health as a matter of public provision of basic services and the sole responsibility of the health sector. While direct government provision for social welfare is indeed a basic and explicit element of social policy, an additional and complementary process of embedding

health concerns into broader economic and social policy is required in order to achieve greater impact on health outcomes, especially for poor people.

H. World Bank

24. The World Bank encourages Governments to adopt macroeconomic policies that not only ensure fiscal stability but also reduce poverty directly. Reforms focus on structural and institutional causes of growth and distribution, such as competitiveness, public sector reform and regulatory capacity. These often require changes in organizational structure as well as changes in the behaviour of public servants, service providers and users, or firms. The social and distributional impacts of policy must not be overlooked. To this end, it is necessary to support policies that reduce unsustainable deficits, open markets and restructure enterprises with measures that not only protect poor people and vulnerable social groups from adverse impacts (e.g., job loss, price increases for staple foods and basic services), but also strengthen the assets and capabilities they need in order to share in the gains of economic reform.

25. The World Bank conducts social analysis and social assessment not only at the investment project level, but also increasingly at the macrolevel in order to assist Governments in the design of policies and public action choices that are tailored to a country's socio-cultural, political and institutional context. Macrosocial analysis examines the opportunities, constraints and risks that need to be considered in the analysis of alternatives and the design of policies and strategies. Its primary objective is to help client countries establish policies and implement strategies that enhance social inclusion, promote empowerment and minimize vulnerability to conflict or economic shock. Social analysis provides a framework for participatory dialogue on development priorities, public action choices, social development indicators and development outcomes. It is therefore recommended that national Governments, with the support of the international community, undertake social analysis to inform policy action alternatives and the appropriate design and sequencing of policies.

26. The provision of resources for social services in the areas of education, health, nutrition and population as well as social protection is essential to the poverty reduction agenda. A well-functioning system of social service delivery is fundamental to the overall effectiveness of the public sector in addressing poverty reduction. The World Bank therefore recommends that Member States take specific measures to ensure greater access to and efficiency of social services, to improve the design of safety nets and to link the building of physical infrastructure with social development goals. National multi-stakeholder consultations can be a means of setting budget priorities and building new forms of partnership.

I. International Monetary Fund

27. The International Monetary Fund views three elements of economic policy as particularly important for promoting social development: (a) fostering broad-based economic growth that generates lasting employment gains and reduces income inequality; (b) controlling inflation, which mitigates real income losses against which the poor are least protected; and (c) promoting the agricultural sector, where

most of the poor are employed. Sound macroeconomic policy — delivering financial stability and external viability through prudent fiscal, monetary, and exchange rate policies — is essential for progress in each of these areas.

28. Some of the social aspects of macroeconomic policies that are focuses of the International Monetary Fund in its work with low-income countries include (a) reorienting budgets towards pro-poor expenditure; (b) developing and funding well-targeted social protection measures aimed at counteracting any negative impacts of macroeconomic adjustment; (c) incorporating the poverty and social impacts of key policies into their design; (d) improving the transparency of Government decision-making processes; (e) improving Government capacity to monitor poverty-reducing spending through better budgetary processes; (f) improving poverty and social welfare indicators; and (g) promoting financial sector reforms that facilitate access to savings and lending instruments in rural areas. Two other priority areas are research on the links between growth and poverty reduction and the need to focus technical assistance on developing the capacity in low-income countries to formulate and execute economic policies aimed at enhancing growth and reducing poverty.

29. In order to make poverty reduction a central goal of adjustment programmes in low-income countries, both the World Bank and the International Monetary Fund adopted the Poverty Reduction Strategy Paper (PRSP) approach. Poverty reduction strategies are expected to ensure consistency between a country's macroeconomic, structural, and social policies, particularly poverty and social development goals. While national poverty reduction goals will necessarily be country-specific, Governments are strongly encouraged to take into account the millennium development goals in preparing their PRSPs. The PRSP process itself will serve as a way to monitor the achievement of these goals at the country level. In conjunction with reform programmes, countries, together with the International Monetary Fund, World Bank and other development partners, intend to carry out poverty and social impact analyses to evaluate the intended and unintended consequences of policies.

30. The relationship between public social spending, social indicators and poverty reduction is complex and dynamic. How much public social spending reduces poverty depends not only on the amount allocated on poverty-reducing programmes, but also on how efficiently these allocations are spent and how well they are targeted to the poor. Increasing the effectiveness and efficiency of social sector spending requires improvements in the intrasectoral allocation of expenditures by function (e.g., in favour of primary education as against tertiary education), and the input mix of these expenditures (e.g., wages versus materials and other inputs).

J. United Nation Industrial Development Organization

31. The United Nations Industrial Development Organization (UNIDO) supports the integration of economic and social policies through policies and strategies that emphasize poverty reduction and social advancement through industrial development. An industrial strategy that integrates social development goals is a key long-term driving force for economic and social development and poverty alleviation. The level of technology content in industry determines the potential of developing countries to use industry to fight poverty and to increase national participation in the global economy.

32. While industrial development is crucial for social progress, certain industrial development patterns and policies are more conducive to social development and social integration than others, including, inter alia, an integration of strategies for agro-industrial development; labour- and skill-intensive industrial development; small- and medium-scale industrial development; informal and microenterprise upgrading; rural and regional industrial development; resource-based industrial development; and strategies that explicitly promote social integration, including the role of women and the social responsibility of enterprises.

33. Such industrial development patterns require highly targeted policies for capacity-building. Entrepreneurship, technology, knowledge, information and infrastructure, including intermediary institutions, are necessary to realize fully the productive potential of industry, agriculture and services, which, in turn, is a necessary, though not sufficient, condition for social progress. This needs to be complemented by highly targeted policies and programmes for establishing the conditions required for attaining the objectives of social development.

34. Specific policies and strategies supported by UNIDO that emphasize poverty reduction and social advancement through industry include the formulation and implementation of industrial policies. These policies provide an enabling framework for the private industrial sector to operate and compete through innovation and learning, increase human capabilities and skills, and explicitly focus on alleviating poverty by increasing poor people's access to information, knowledge and new technology.

Notes

[a] Based on submissions received by the United Nations Secretariat from organizations in the United Nations system.

[b] See Juan Somavia, "Integrated thinking and global governance", a paper submitted to the first regular session of the United Nations Administrative Committee on Coordination, held at the United Nations Environment Programme, Nairobi, from 2-3 April 2001. Available on the International Labour Organization web site at http://www.ilo.org/public/english/bureau/dgo/messages/acc.htm.